The George Washington University
Navy Postgraduate Comptrollership Course

SPENDING TRENDS

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I. INTRODUCTION

This paper is concerned with trends in national production, federal government finance, and national defense spending. These trends are indicators of our national well-being. They affect me as a Marine and as a citizen. I chose this topic to increase my knowledge of the various indexes, sources of data, and trends. I was particularly interested in determining what effects population growth and inflation have on real per capita trends.

A study of trends over an extended period involves several problems. The older the statistic the less reliable it probably is. Some statistical series extend back to the birth of our nation. The accounting, census, and sampling techniques used to accumulate these earlier statistics were not as reliable and accurate as current techniques. Older statistics, however, do give us a useful frame of reference.

Shifting definitions and classification of data over the years are a troublesome problem. Different sources sometimes report dissimilar figures for supposedly identical statistics. These variances may be caused by minor differences in classifying data. The same source may at different times report dissimilar figures for supposedly the same statistic. This may be

caused by a revision of earlier estimates, a change in definition or classification, or a correction of errors. All of these problems of definition and accuracy require us to exercise considerable judiciousness in comparing data from different sources and time periods.

In addition to the above problems of accuracy I superimposed some additional minor inaccuracies caused by slide rule computations. The cumulative effects of these various inaccuracies appear to average less than one percent for any particular statistic. These inaccuracies tend to average out over a period of time so I believe they have no significant effect on our study of trends.

I was more interested in trends than in the precise values of the statistics for particular years. Because of my primary interest in trends and the frequent minor discrepancies in figures I did not include tables of statistics in this paper. I concentrated instead on graphic presentation of trends. Notations indicate the sources of data used for each graph. If specific values for a statistic are needed you may obtain them by referring to the sources noted.

I must admit that I had some biases and preconceived opinions prior to starting this paper. Strangely enough the conclusions of this paper are identical with my previous opinions. I have, however, made an effort to be objective, or at least to identify my personal opinions when they intrude.

With these preliminaries out of the way, let us look at trends in our national production.

II. NATIONAL PRODUCTION

Interest in national production is a fairly recent phenomenon of our national scene. Economists prior to the early 1930's concentrated their efforts on analysis of individual transactions. The consensus was that the interplay of competition in a free market would insure full utilization of the factors of production, labor, capital, and material. For example, an abundant supply of labor would cause wage rates to fall. Lower wage rates would encourage employers to hire more men. The workings of supply and demand on individual transactions in the market would result in full employment for all those who desired to work for the prevailing wage rates. The great depression of the early 1930's, however, produced a situation whereby twenty-five percent of the work force could not find employment at any price. Short term interest rates fell to less than one half of one percent. Factories stood idle because their output could not be sold at any price. The prices of the factors of production and the prices of finished goods fell, but demand fell faster and further -- to zero in many cases. It became rather apparent to most that the market was not functioning in the "classical" manner. The market had stabilized, but its equilibrium point was considerably below a full employment level.

The great depression forced attention on the problems of

total demand. The Roosevelt administration rather intuitively perceived that lack of total demand was the problem and attempted to raise demand via increased government spending, or "pump priming." It remained for John Maynard Keynes in 1936 to "legitimatize" government compensatory spending by developing a logical theoretical explanation of the functioning of the capitalistic national economy.[1]

Macroeconomic studies became important in the latter 1930's and World War II period. Keynesian macroeconomic concepts are practically universally accepted today. Most conservatives will even admit, perhaps tacitly, that Keynes' theories have some merit.

As macroeconomic theory developed, economists, administrators, and political leaders realized that they lacked essential information concerning our economy. Statistics on the national economy were essential for policy decisions. The Department of Commerce, in the early 1930's, was charged with the responsibility for collecting and publishing national income statistics.

Definition and collection of national income data involve many problems, some of which are not completely solved.[2]

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[1]John Maynard Keynes, The General Theory of Employment, Interest and Money (New York: Harcourt, Brace & Co., 1936).

[2]An excellent survey of this topic is: Carl S. Shoup, "Development and Use of National Income Data," A Survey of Contemporary Economics, ed. Howard S. Ellis (Published for the American Economic Association: Homewood, Ill.: Richard D. Irwin, Inc., 1948), I, 288-313.

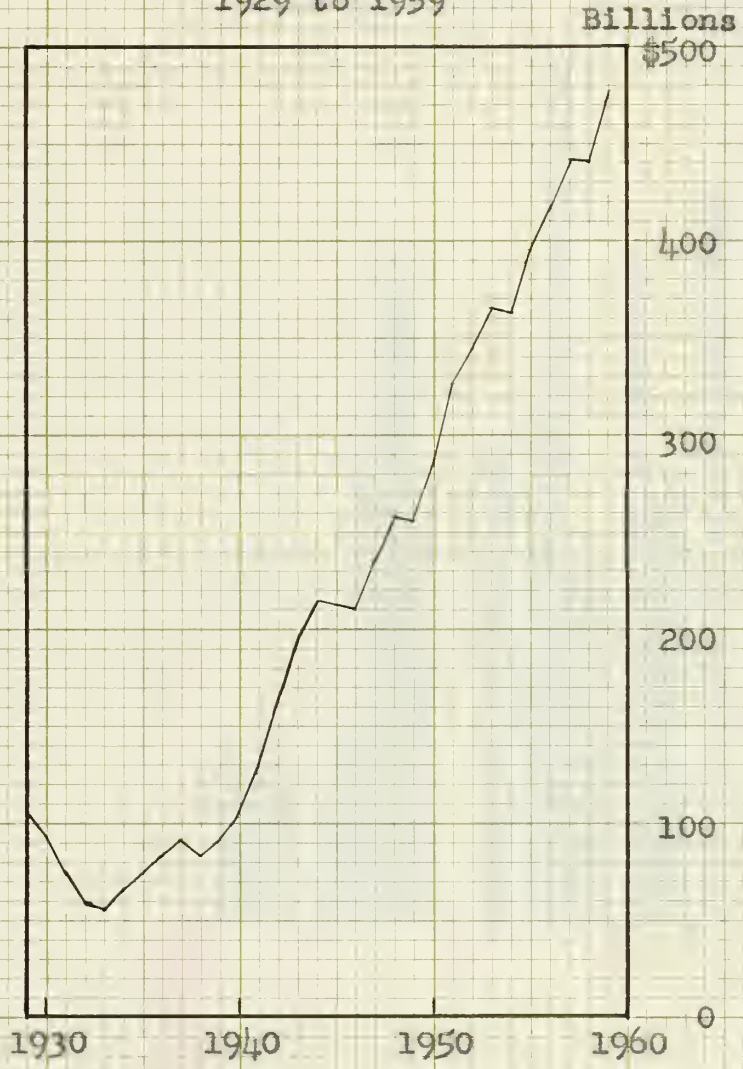
The oldest, and probably most commonly used, national income statistic is gross national product. Gross national product represents the national output of end-product goods and services at market prices. Gross national product is an index of current demand, and is one of the determinants of future demand. One of the problems involved in collecting gross national product data is insuring that sales of raw materials and component parts are not counted along with sales of the final products, which would result in double counting. Another data collection problem is the estimate of imputed values of the rental values of owner occupied dwellings and the values of various payments in kind. Gross national product therefore contains some estimated elements, but it is a very useful index of the state of the national economy.

Our gross national product has shown a most respectable growth from the 1933 depression low of fifty-six billion dollars to the 1959 high of 480 billion dollars. Graph 1, page 6, illustrates the growth of gross national product from 1929 to 1959 in current dollars. Graph 2, page 7, depicts tha annual dollar increase or decrease in gross national product. Graph 2 illustrates the great depression of the early 1930's, the economic relapse in 1938, the downward adjustments after World War II and the Korean War, and the recessions of 1949 and 1958. Graph 3, page 8, reflects percent annual change in gross national product.

Occaisionally some random, non periodic, economic event, such as a nation wide steel strike, will cause a significant

Graph 1.

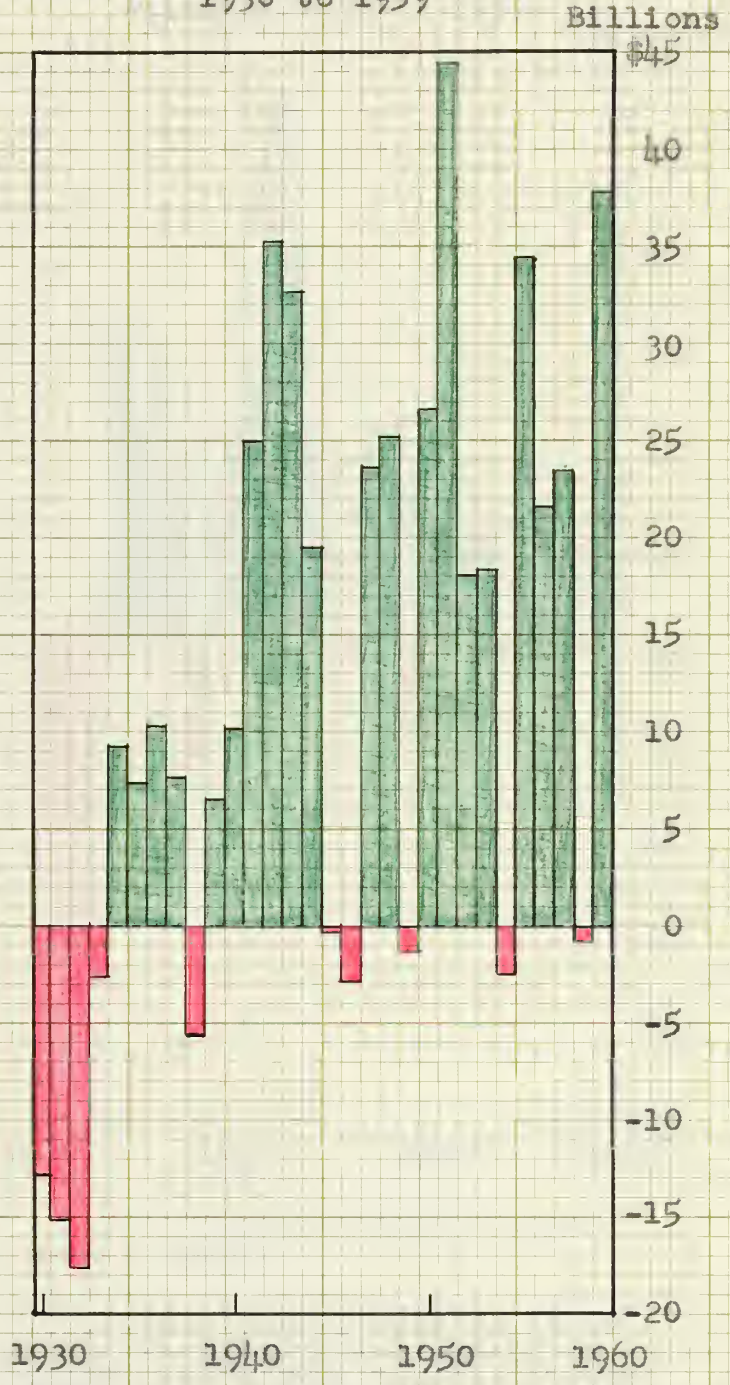
Gross National Product
Or Expenditure In
Current Dollars:
1929 to 1959



Sources: U.S., Bureau of the Census, Historical Statistics of the United States, 1789-1945, 1949, p. 12; U.S., Bureau of the Census, Statistical Abstract of the United States: 1959, p. 304; and U.S., Congress, Joint Economic Committee, Economic Indicators, (March, 1960), p. 2.

Graph 2.

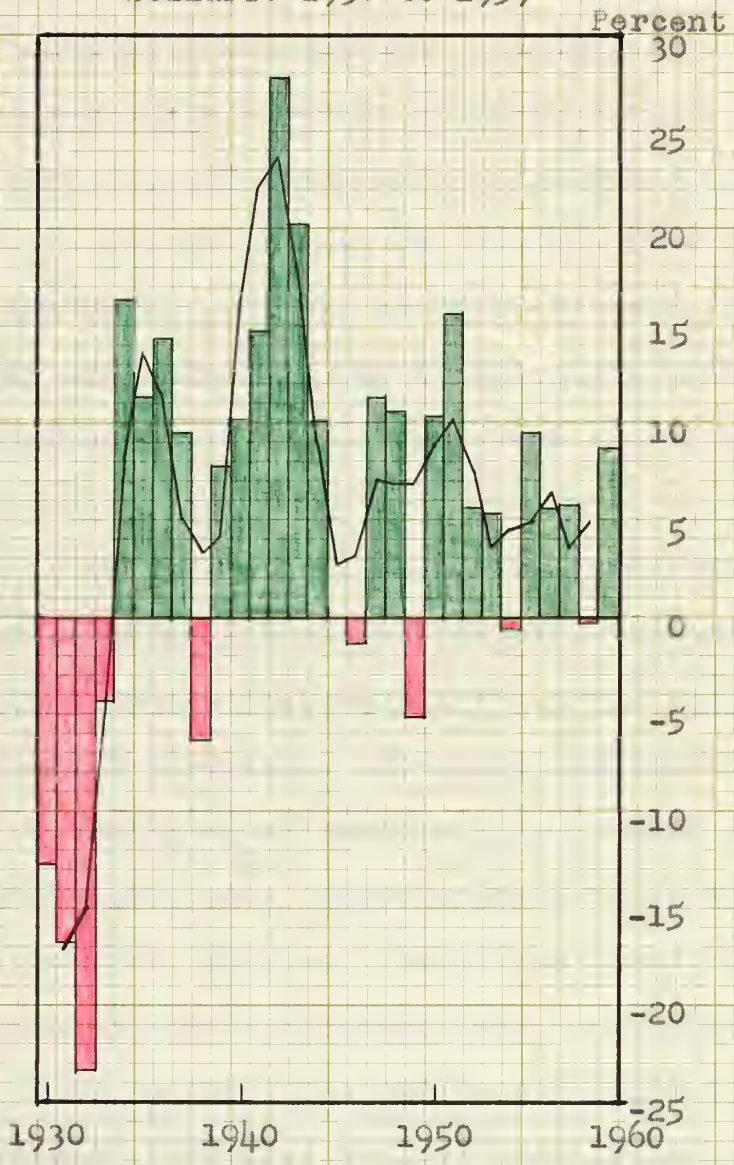
Annual Change In Gross National Product Or Expenditure In Current Dollars: 1930 to 1959



Sources: Statistical Abstract: 1959, p. 304; and Economic Indicators (March, 1960), p. 2.

Graph 3.

Percent Annual Change In Gross National Product In Current Dollars: 1930 to 1959



1. Bars indicate percent annual change.

2. Curve indicates trend in percent annual change based on three year moving average of GNP.

Source: Graphs 1 and 2.

change in an annual gross national product figure. In order to dampen these random wide variations in annual percent change in gross national product, I computed a three year moving average of gross national product. The curve in graph 3 is the trend in percent annual change in gross national product based on this three year moving average of gross national product.

The stimulating effects of increased government spending during World War II and the Korean War are evident from graph 3. War conditions are abnormal, however, because of our last two wars the trend in percent annual growth of gross national product appears to be cyclical with an upsurge every six to nine years.

Since the Korean War the annual change in gross national product has varied from minus 0.5 percent to plus 9.5 percent. The smoothed trend indicates a post Korean War trend varying betwean 3.5 percent and 6.5 percent. The smoothed trend shows every indication of stabilizing at about a five percent growth rate in terms of current dollars. There appears to be a tendency for variations from the smoothed percentage trend to become smaller in amplitude. This apparent dampening of swings in the economy may be a result of the ameliorating effects of our automatic compensatory devices, such as unemployment insurance and progressive income tax rates.

We may, at long last, understand our economy and be able to control it. Perhaps we only think we can control the economy and are fooling ourselves into maintaining stable economic

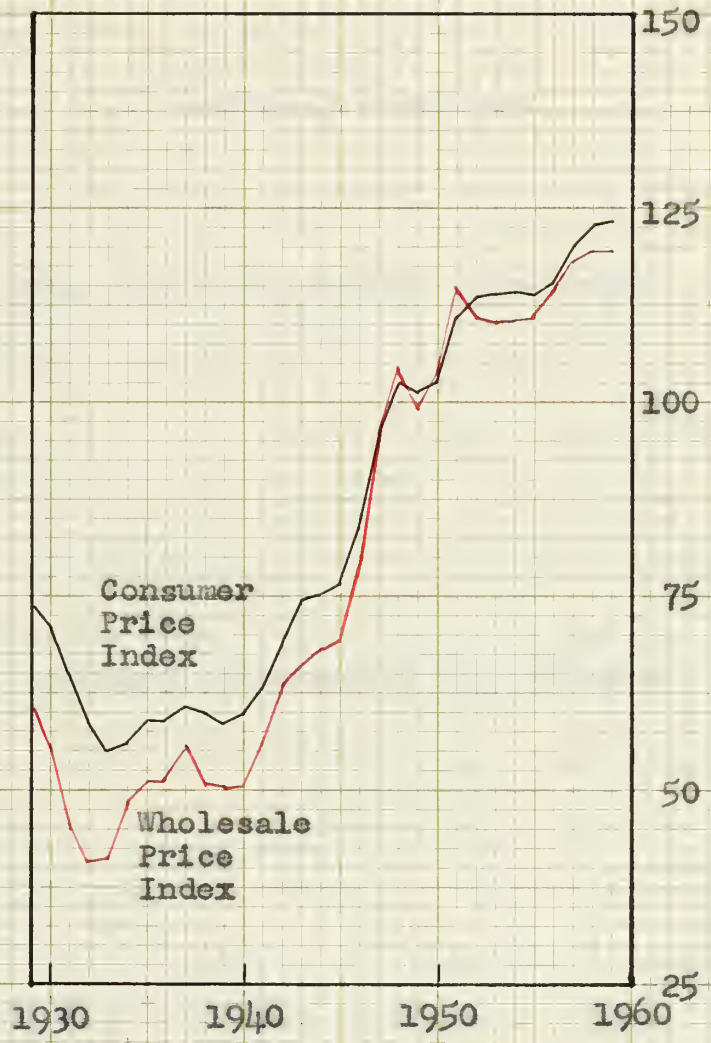
growth. Public confidence is all important in maintaining growth. The actual ability to control the economy is not as important as public belief that the economy can and will be controlled in a depression.

Any study of economic trends must consider the effects of inflation. Inflation has eroded the purchasing power of the dollar. Inflation reduces apparent economic growth expressed in current (variable purchasing power) dollars.

The United States Bureau of Labor Statistics maintains several price indexes. The most important indexes are the consumer price index and the wholesale price index, and their components. These indexes for the period 1929-1959 are shown in graph 4, page 11. A sophisticated conversion of gross national product from current dollars to real, or constant purchasing power, dollars would involve deflating the components of gross national product by price indexes that best describe the prices of that component. I have not attempted to do this. Graph 5, page 12, breaks gross national product into components of government purchases, gross private domestic investment, and personal consumption expenditures. About sixty-five percent of gross national product consists of personal consumption expenditures. I have arbitrarily used the consumer price index to deflate all the gross national product figures. I believe the consumer price index correlates closely enough with the wholesale and other price indexes so that its use to deflate the entire gross national product causes little distortion.

Graph 4.

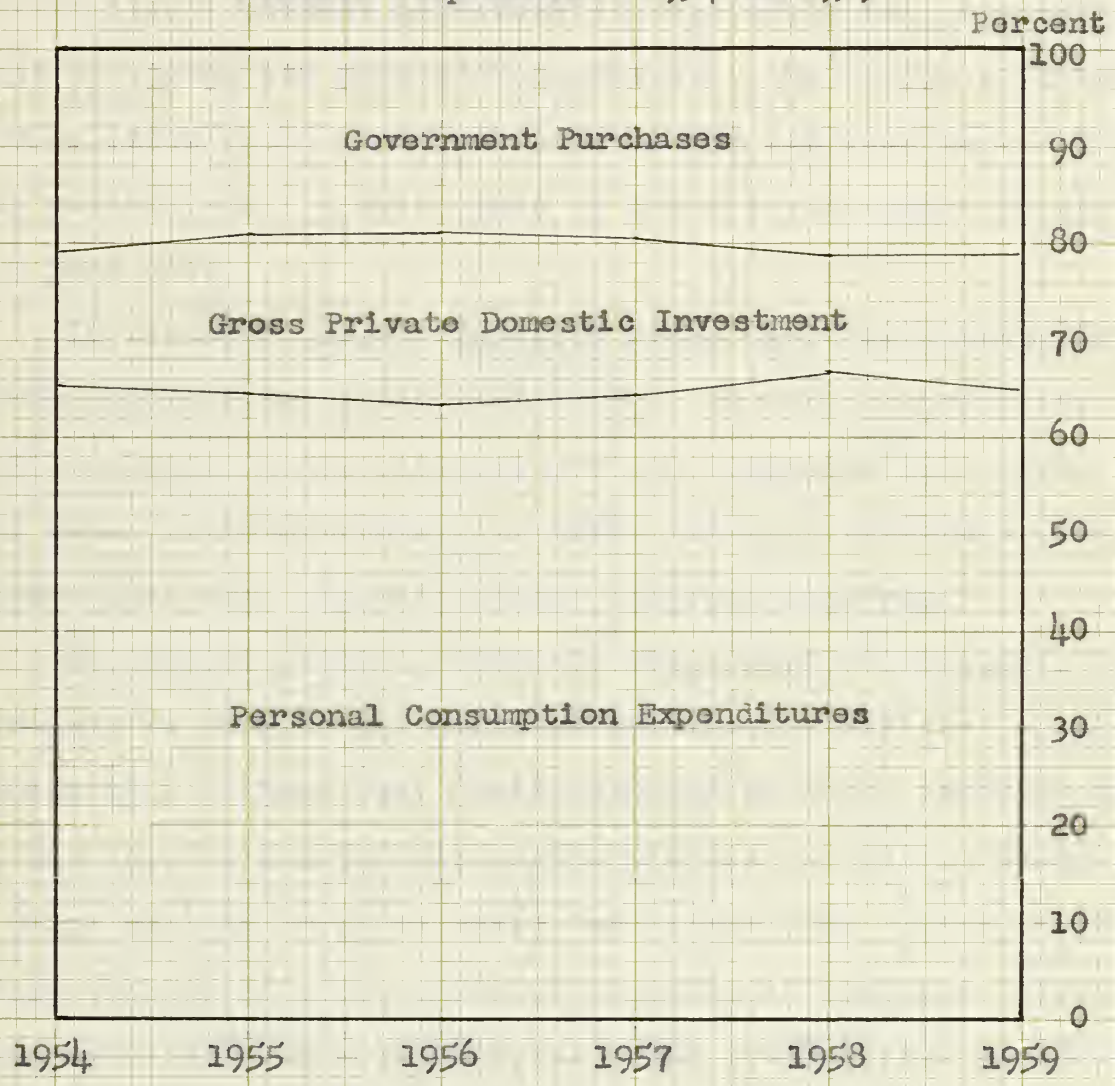
Bureau of Labor Statistics'
Consumer and Wholesale
Price Indexes:
1929 to 1959
1947-49=100



Sources: Historical Statistics, 1789-1945, p. 231; Statistical Abstract: 1959, pp. 329, 333; and Economic Indicators (March, 1960), pp. 23, 24.

Graph 5.

Percentage Distribution of Gross National Product Components: 1954 to 1959



Source: Basic data from Economic Indicators (March, 1960), p. 2.

Graph 6, page 14, illustrates the growth of gross national product in current (eroded) dollars and in constant (1933) dollars. I chose 1933 as a base year because starting in 1933 gross national product generally increased and the purchasing power of the dollar generally decreased. The choice of 1933, or some other year, as a base year is not too important. The same relative real growth would be obvious regardless of the base year used.

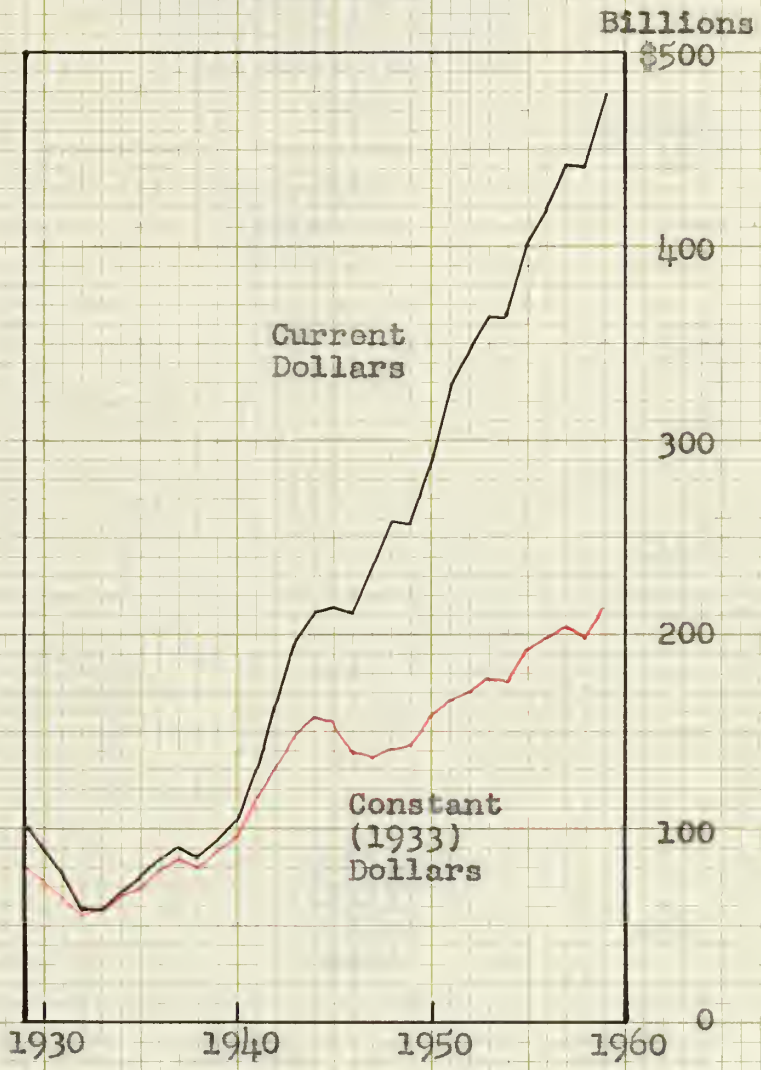
In terms of current dollars, gross national product increased 800% in the period 1933-1959. In terms of constant (1933) dollars, gross national product increased only 350%. Real gross national production since the depression has increased less than one half of the apparent increase.

The annual percent change in gross national product, expressed in current and constant dollars, is depicted in graph 7, page 15. A three year moving average of gross national product was used to smooth this graph. Annual percentage change in gross national product since the Korean War, based on a three moving average of gross national product, in terms of current dollars ranged from 3.5% to 6.5%. This growth trend in terms of constant dollars has only been 1.0% to 5.0%. The application of a deflationary index to gross national product figures not only lowers the percentages for annual growth rates, but results in a trend curve with an indication that growth is increasing, but at a continuously decreasing rate.

Many contemporary commentators have expressed concern

Graph 6.

Gross National Product in Current and Constant (1933) Dollars: 1929 to 1959

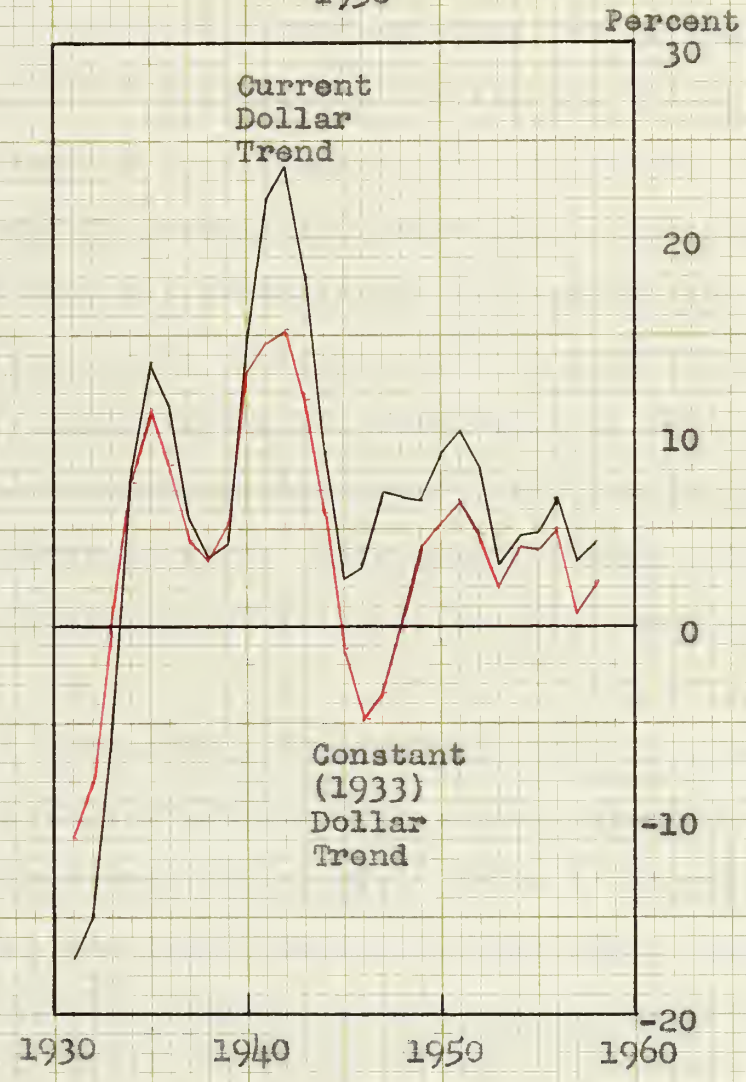


Note: The BLS Consumer Price Index was used to deflate the current dollar GNP figures.

Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 304, 333; and Economic Indicators (March, 1960), pp. 2, 23.

Graph 7.

Trends in Percent Annual Change in Gross National Product or Expenditure in Current and Constant (1933) Dollars: 1931 to 1958



Note: A three year moving average of GNP was used to smooth the trends.

Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 304, 303; and Economic Indicators (March, 1960), pp. 2, 23.

over this nation's rather unimpressive rate of growth in terms of real gross national product. Our gross national product, of course, relates to our standard of living and has implications concerning our position vis-a-vis Russia.

It is very difficult to evaluate the Russian economy. Little public economic information comes out of Russia. We have difficulty in comparing the Russian and United States economies because of some fundamental differences in the economies. The Russian economy is controlled by the government therefore the economic growth rates are controlled and can change rapidly a policy changes. Russian production can be shifted fairly easily among the components of capital goods, defense items, and consumption goods. The Russian government establishes prices by fiat. This makes it very difficult to analyze the effects of inflation on the few economic statistics available.

Since the Korean War, Russian industry has grown at a real annual rate of 9.5% while our real annual industrial growth rate has averaged less than 3.6%.[1] Russia's larger growth rates, however, are computed on a smaller base. Experts on the Russian economy generally agree that the Russian gross

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[1]Comparative industrial annual growth figures are from a speech made April 8, 1959 by Allen W. Dulles, Director of the Central Intelligence Agency, quoted in The Challenge of Soviet Power (Department of State Publication 6823, released May 1959), p.5.

national product is about forty percent as large as ours.[1] The Russians annually plow back about thirty percent of their production into capital goods investment. United States public and private annual investments have been averaging seventeen to twenty percent of production.[2] W. W. Rostow, of the Massachusetts Institute of Technology, estimates that the Russian gross national product will likely rise to fifty percent of ours by 1970.[3]

The critical factor in comparing the Russian and United States gross national products is not the total amounts, or even the growth rates, but rather how the production is allocated. Russia, with a gross national product only forty percent of ours, allocates as much real production to her annual military effort as we do.[4] Russia gives priority to growth and defense. We give priority to current private consumption.

Another way of looking at our production is the amount we produce per man. Our population has been increasing along with our production. Demographers are not able to predict population growth rates with much confidence. The number of people of child bearing age can be extrapolated. Death rates for various ages can be computed. The propensity of humans to reproduce,

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[1]W. W. Rostow in: U.S., Congress, Joint Economic Committee, Papers submitted by panelists, Comparisons of the United States and Soviet Economies, 86th Cong., 1st Sess., 1959, p. 591.

[2]A. W. Dulles, p. 6.

[3]W. W. Rostow, p. 592.

[4]A. W. Dulles, p. 2.

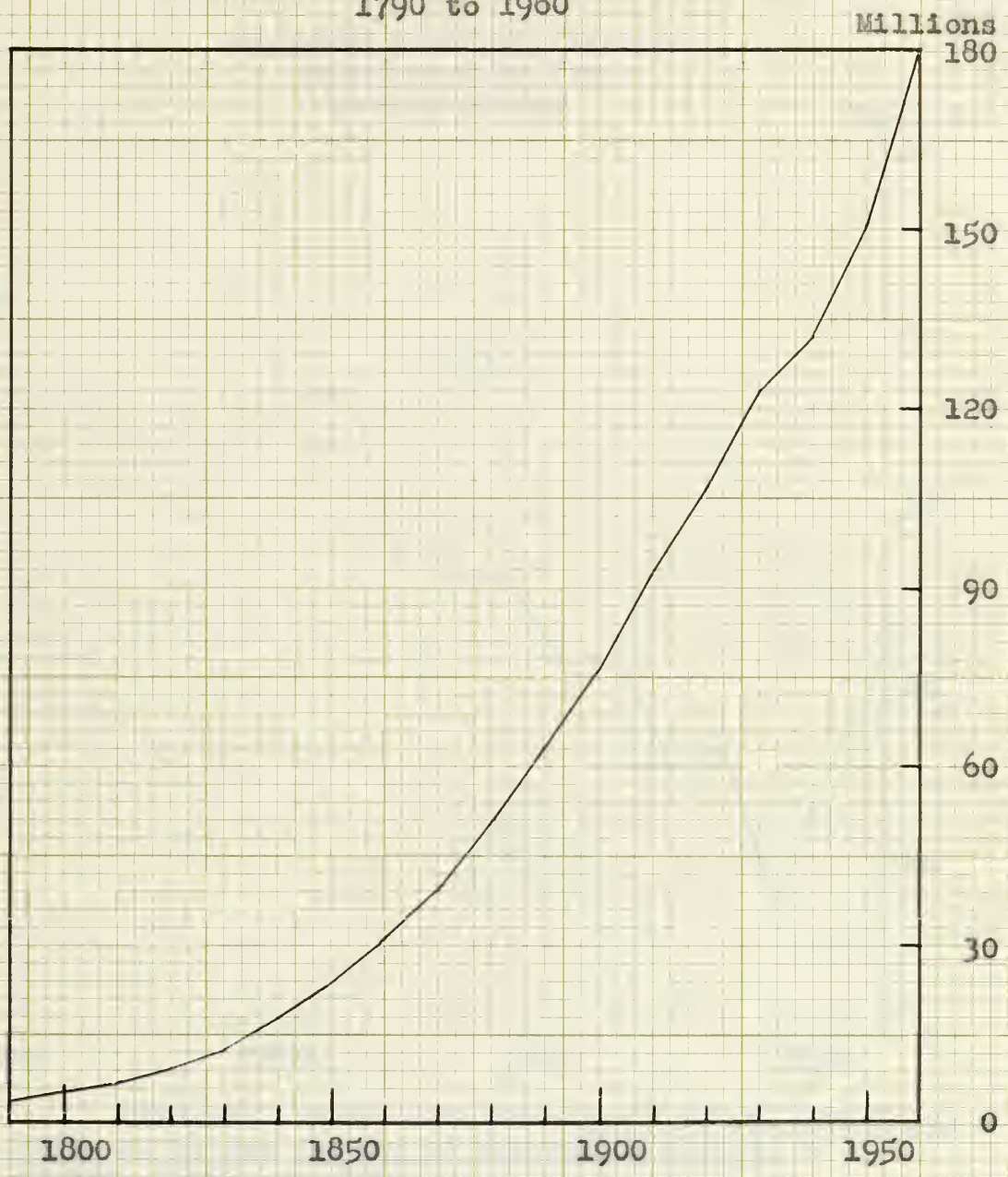
however, involves that most unpredictable factor -- man, and his actions are most difficult to forecast. The United States population growth rate showed every sign of increasing at a decreasing rate up to 1940 (graphs 8 and 9, pages 19 and 20). Since 1940 our population growth rate has increased at an increasing rate. The erratic nature of population growth rates introduces a factor of uncertainty in any effort to extrapolate per capita economic trends.

Graphs 10 and 11, pages 21 and 22, illustrate the effects of population growth and inflation on per capita gross national production growth. Graph 12, page 23, depicts trends in percent annual change in per capita gross national product. A three year moving average of per capita gross national product was used on graph 12 to smooth the trends. The trends in graph 12 embody the same cycles apparent in total gross national product percentage annual growth (graph 7, page 15). Population growth, however, has the effect of lowering per capita growth several percentage points below total gross national product growth. The current rate of growth in per capita gross national product is zero.

Per capita gross national product is an indication of the well-being of individual Americans. Some of this production is reinvested by business and government to insure further growth in national and individual well being. Some of this production is spent by our government for common services. The balance of our production is available to individuals to satisfy their needs

Graph 8.

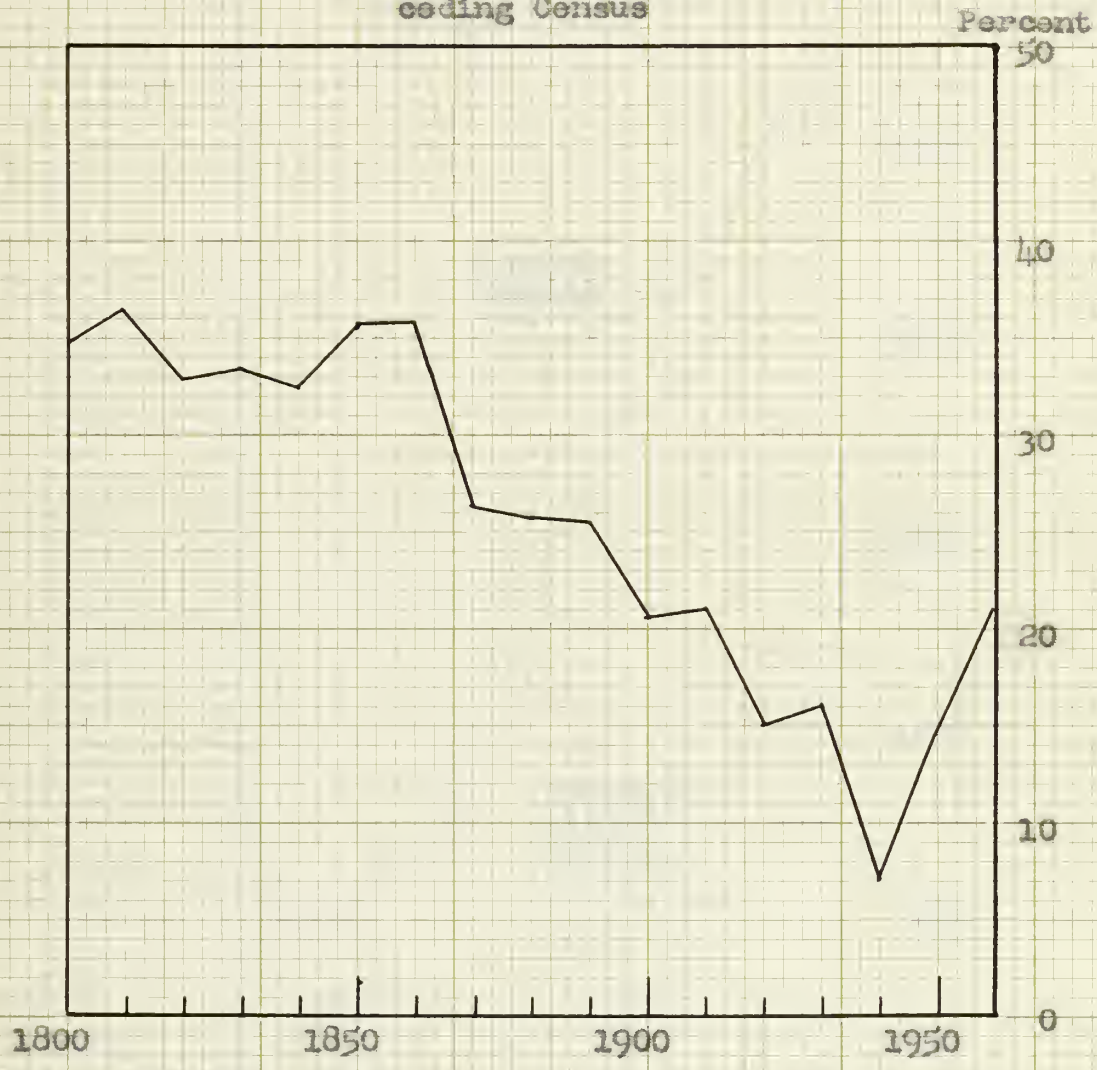
Estimated United States Population
1790 to 1960



Sources: Statistical Abstract: 1959, p. 5; and U.S., Department of Commerce, Survey of Current Business, XL (March, 1960), p. S11.

Graph 9.

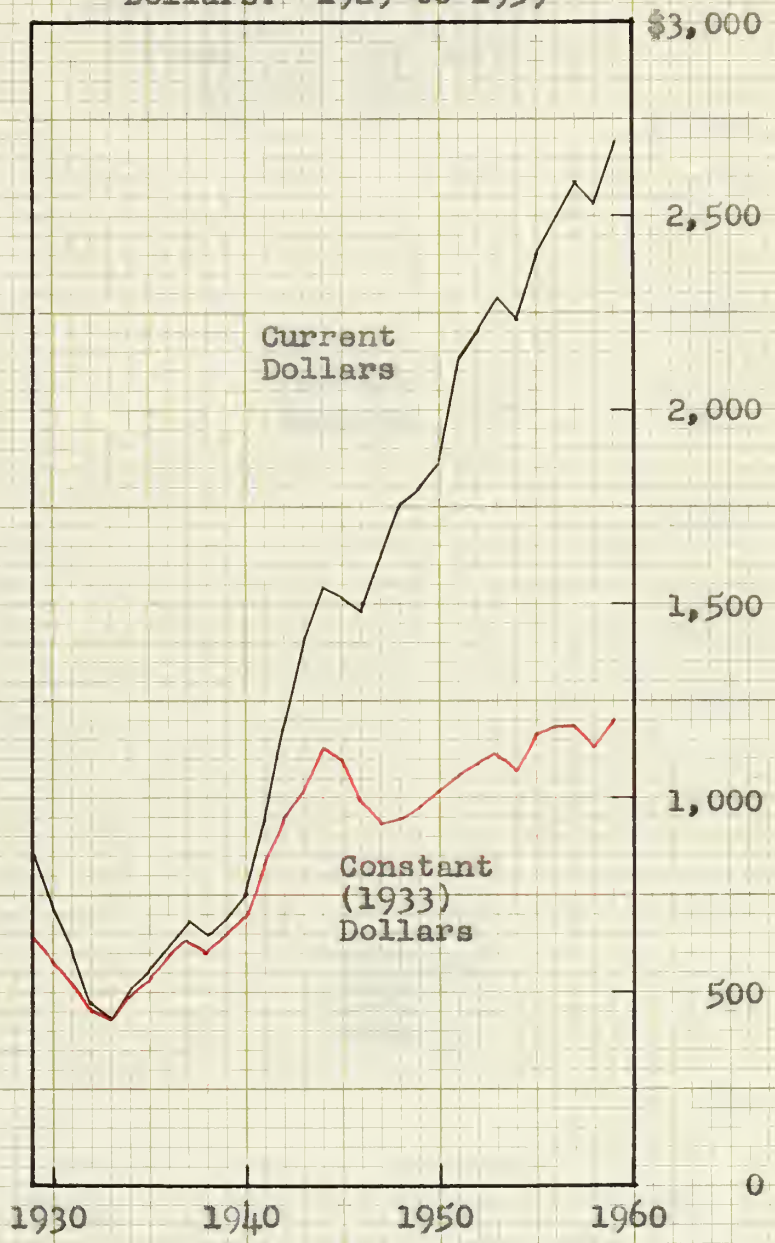
Population Growth; Percent Increase Over Preceding Census



Sources: Basic data from Statistical Abstract: 1959, p. 5; and Survey of Current Business, XL (March, 1960), p. S11.

Graph 10.

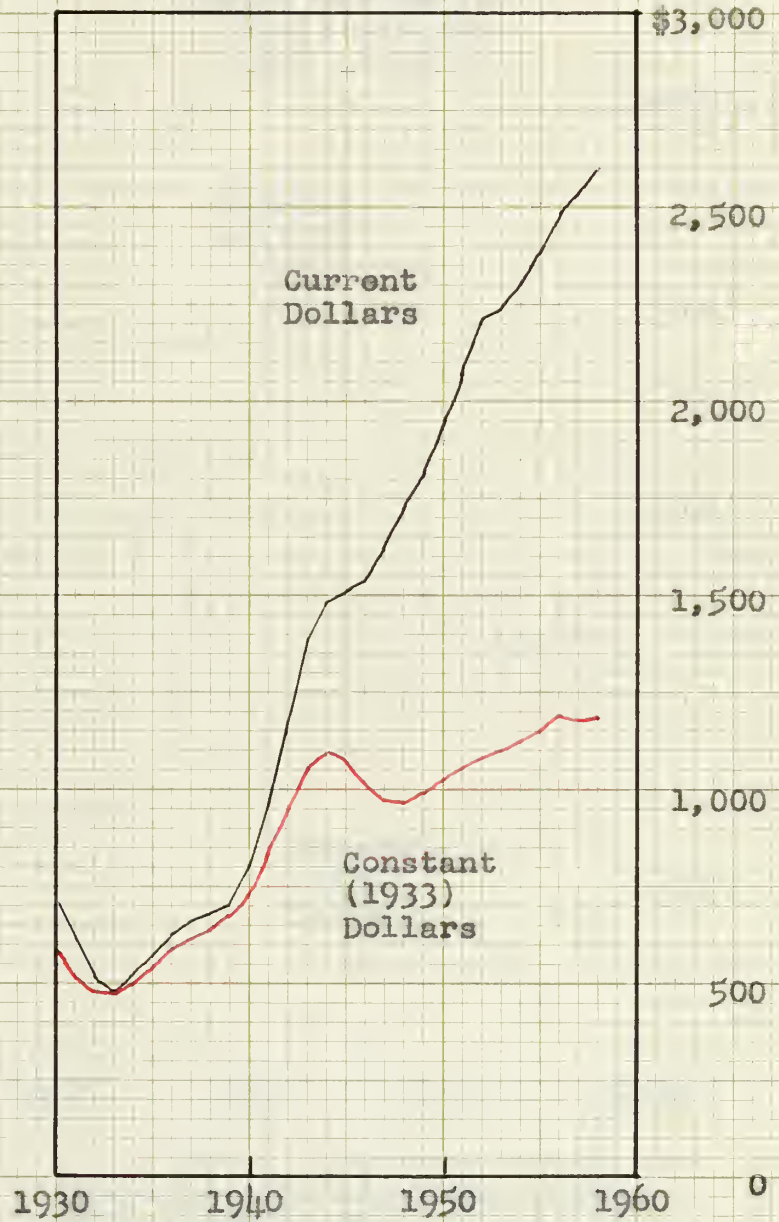
Per Capita Gross National Product in Current and Constant (1933) Dollars: 1929 to 1959



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 5, 304, 333; and U.S., Department of Commerce, Survey of Current Business, XL (March, 1960), pp. S1, S6, S11.

Graph 11.

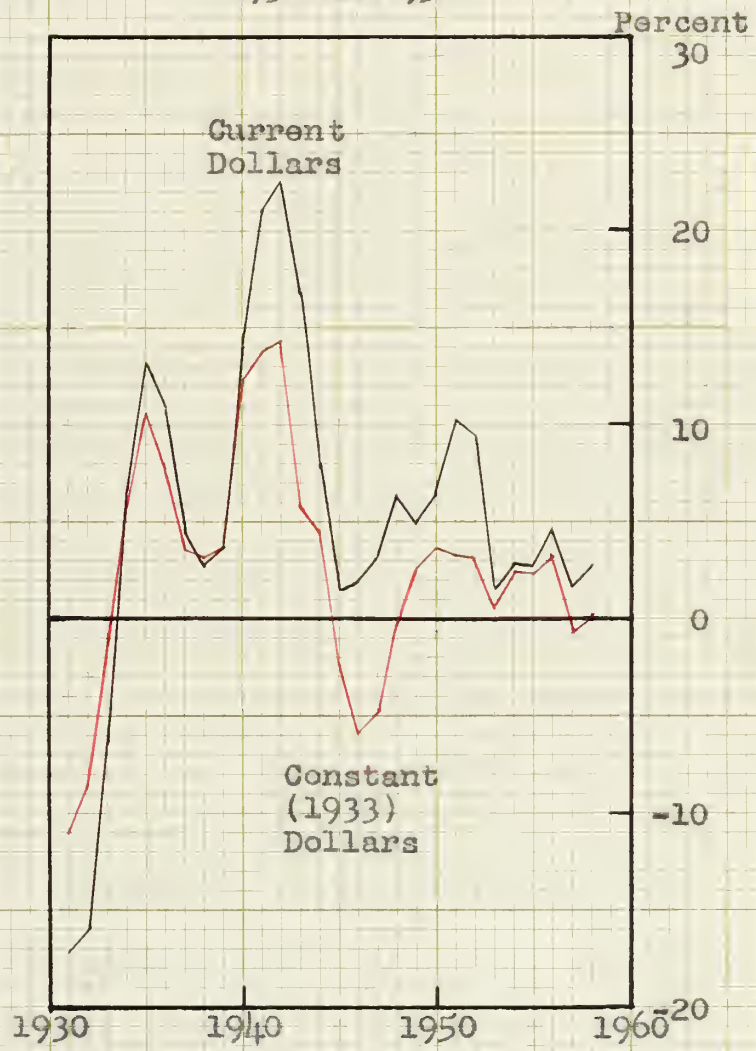
Per Capita Gross National Product Trends Smoothed by a Three Year Moving Average of P/C GNP: 1930 to 1958



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 5, 304, 333; and Survey of Current Business, XL (March, 1960), pp. S1, S6, S11.

Graph 12.

Trends in Percent Annual Change in Per Capita Gross National Product or Expenditure in Current and Constant (1933) Dollars: 1931 to 1958



Note: The above trends are based on a three moving average of per capita GNP.

Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 5, 304, 333; and Survey of Current Business, XL (March, 1960), pp. S1, S6, S11.

and desires. In the next chapter we will take a look at trends in disposable personal income.

III. DISPOSABLE PERSONAL INCOME

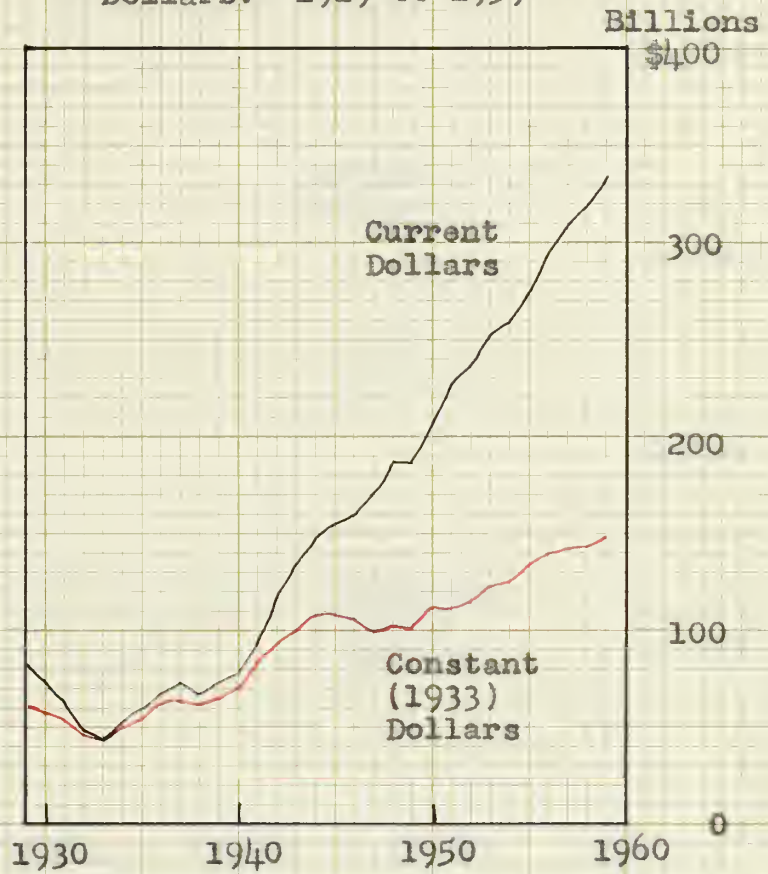
Disposable personal income is current personal income less income taxes. Disposable personal income includes income from current production, government transfer payments for non-current production (such as social security benefits and pensions), and some estimates for non-monetary items (such as rental value of owner occupied dwellings and payments in kind). Disposable personal income is an index of the purchasing power and well-being of individuals. Total disposable personal income is depicted in graph 13, page 26. Total disposable income since 1933 has increased about 740% in current dollars. Inflation in this period reduced the growth of disposable personal income to about 330%.

Graph 14, page 27, contains percapita disposable income in current and constant (1933) dollars. Graph 15, page 28, ilustrates the same data but the trends are smoothed by a three year moving average of per capita disposable personal income. Per capita disposable income since 1933 has increased about 460% in terms of current dollars. In terms of purchasing power, or constant dollars, per capita disposable income has increased only 225% since 1933.

The difference in growth of total disposable income in current dollars of 740% and per capita disposable income in

Graph 13.

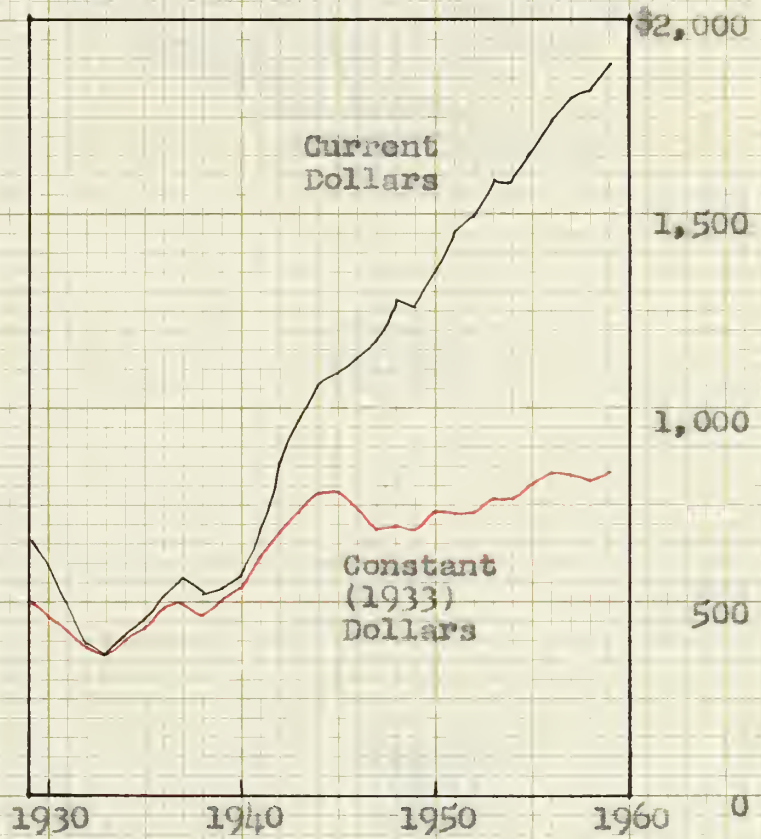
Disposable Personal Income in Current and Constant (1933) Dollars: 1929 to 1959



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 305, 333; and Survey of Current Business, XL (March, 1960), pp. S5, S6, S23.

Graph 14.

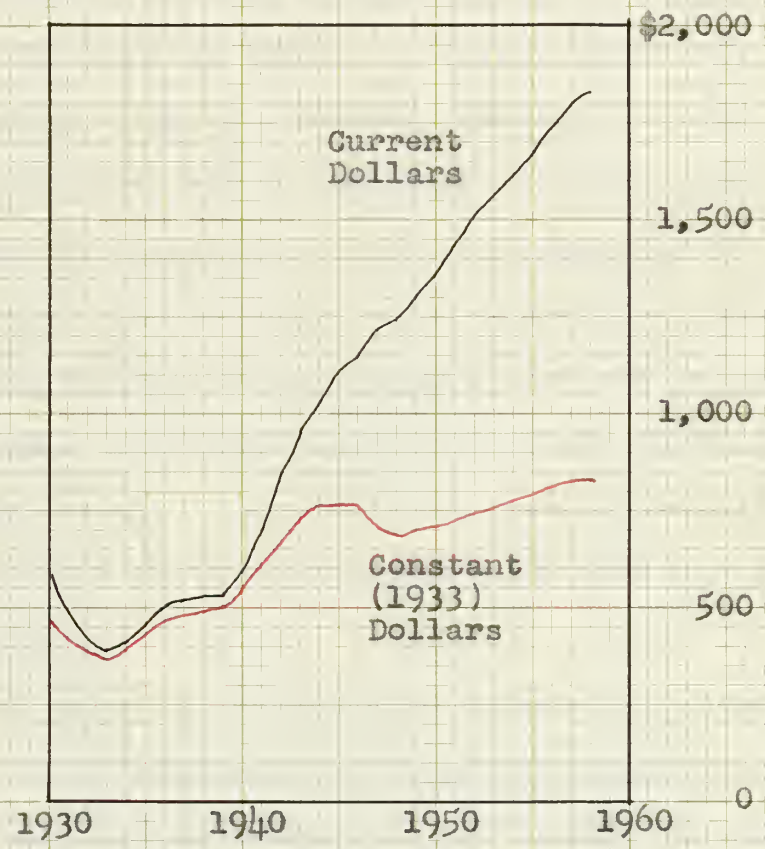
Per Capita Disposable Personal Income in Current and Constant (1933) Dollars: 1929 to 1959



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 304, 333; and Survey of Current Business, XL (March, 1960), pp. S1, S6, S11.

Graph 15.

Trends in Per Capita Disposable Personal Income in Current and Constant (1933) Dollars, Smoothed by a Three Year Moving Average



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 5, 304, 333; and Survey of Current Business, XL (March, 1960), pp. S1, S6, S11.

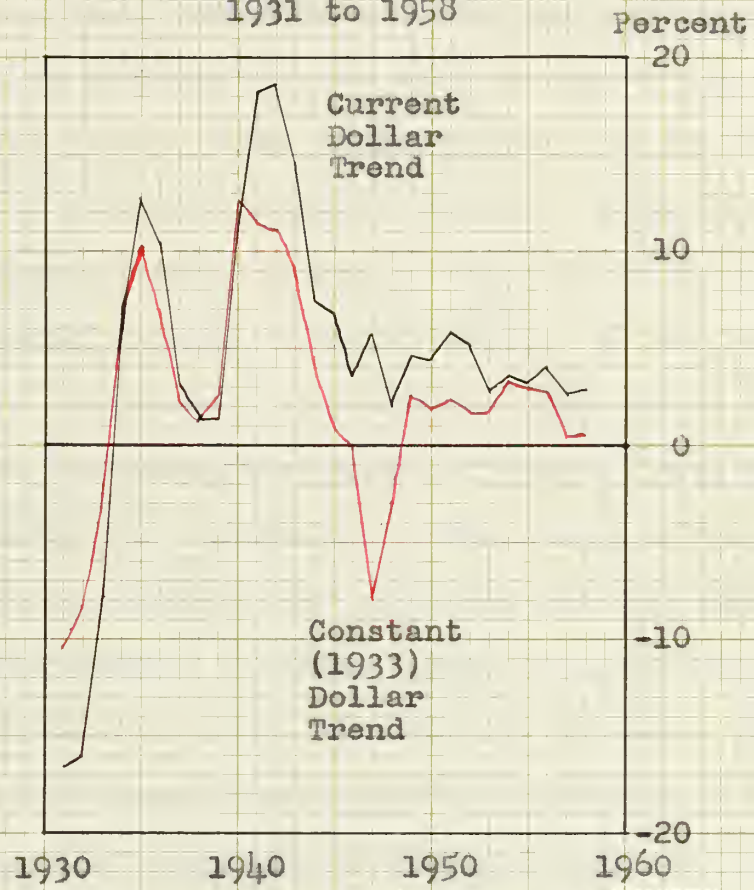
constant dollars of 225% illustrates the importance of considering population growth and inflation when discussing economic trends.

Any attempt to compare the well-being of individuals over a long period using the criteria of real per capita disposable personal income gets involved in intangible value judgments. For example, medical expenses per person may have risen relatively the same as income in thirty years but the quality of the medical care, in terms of ability to cure particular diseases, may have risen even more -- from complete inability to cure to practically complete assurance of a cure. Many current goods and services (e.g. television, jet travel, miracle clothing fibers, frozen foods) were not in existence thirty years ago. New goods and services are certainly an additional cost to the modern man, but who can measure the relative well-being and satisfactions of a 1960 man in contrast to a 1933 man?

Graph 16, page 30, illustrates the trends in percent annual change in per capita disposable personal income. I used a three year moving average of per capita disposable personal income to smooth the trends in graph 16. Since World War II, the individual American has just about held his own in terms of purchasing power. Real per capita disposable income since World War II increased about eleven percent. This means that individual purchasing power has increased less than one percent per year. Annual percent changes in real per capita disposable

Graph 16.

Trends in Percent Annual Change in Per Capita Disposable Personal Income: 1931 to 1958



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 231; Statistical Abstract: 1959, pp. 5, 304, 333; and Survey of Current Business, XL (March, 1960), pp. S1, S6, S11.

Note: Trends are smoothed by use of a three year moving average of P/C DPI.

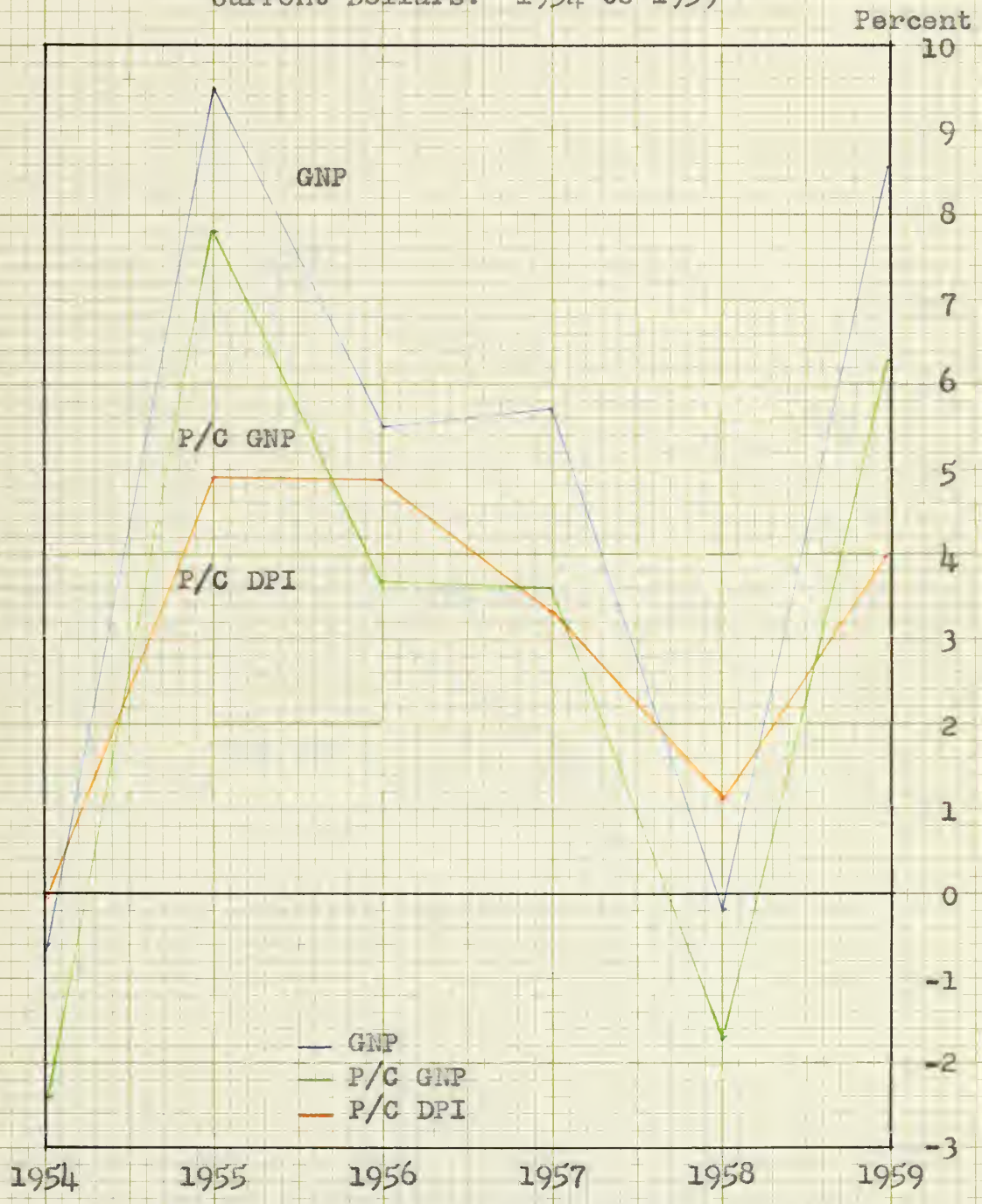
income since 1945, based on a three year moving average of per capita disposable income, ranged from minus eight percent to plus three percent. This growth rate is currently one half of one percent each year, based on a three year moving average.

If a moving average was not used to smooth the trends, the year to year growth rates would appear more erratic, with a wider range of plus and negative values. Graph 17, page 32, illustrates percent annual change in current dollar per capita disposable personal income, without benefit of smoothing by a moving average. If graph 17 is compared with graph 16 the wider swings in the unsmoothed curve of graph 17 are obvious. Graph 17 contrasts the unsmoothed growth rates of per capita disposable personal income, per capita gross national product, and total gross national product. Graph 18, page 33, contains the same information in terms of constant dollars. These curves followed the same general cyclical pattern but per capita disposable personal income growth rates generally lagged below gross national product growth rates. Graph 19, page 34, compares these same trends smoothed by use of three year moving averages. Graph 20, page 35, depicts trends in these indexes as percents of the 1954 figures. In all these comparisons, the lowering effects of population growth and inflation are obvious.

The conclusions drawn from these trends will probably depend on the political and economic philosophy of the analyzer. My personal view is that the current growth rate of real gross national product of less than three percent each year and of

Graph 17.

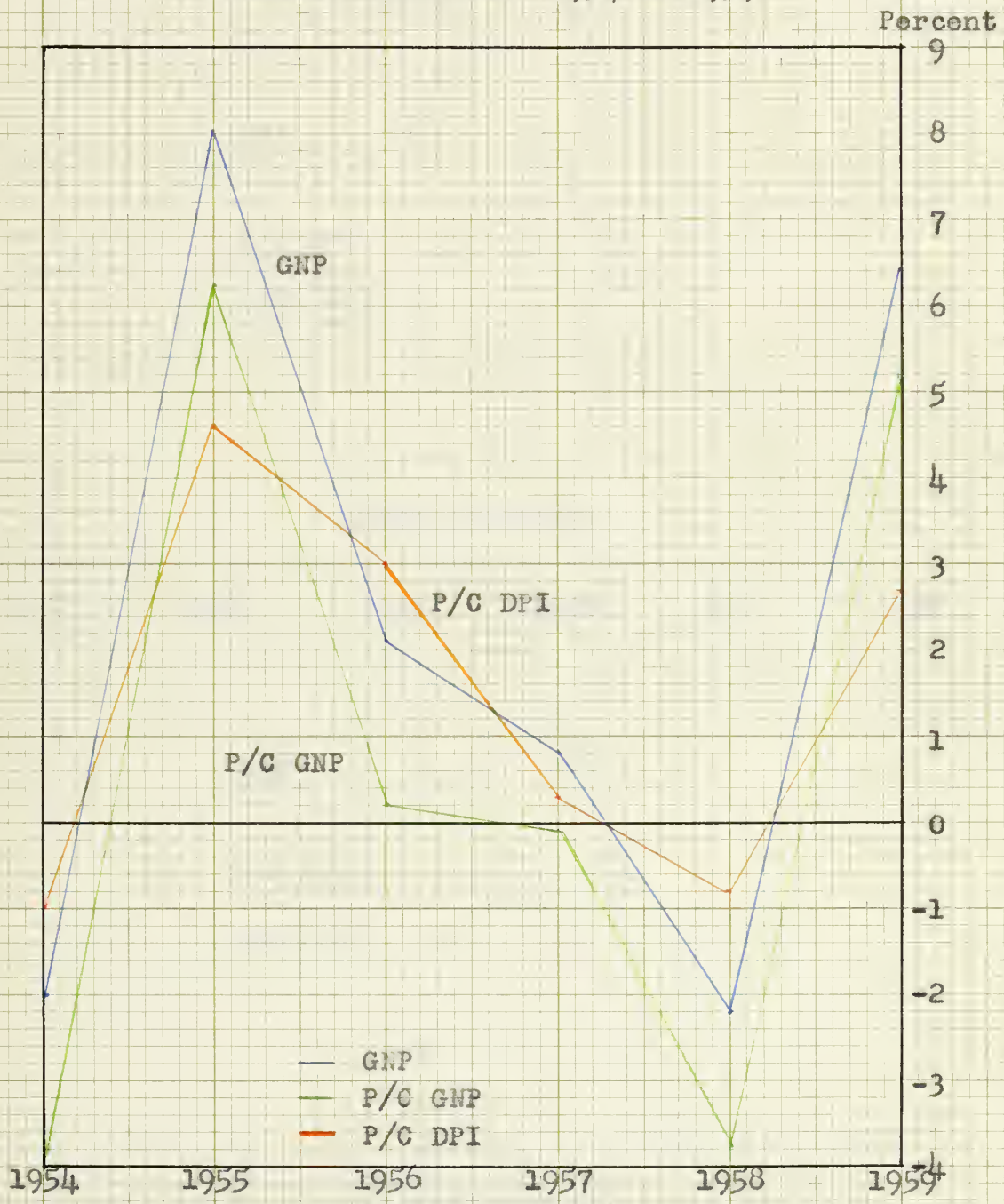
Percent Annual Change in Gross National Product, Per Capita Gross National Product, and Per Capita Disposable Personal Income, in Current Dollars: 1954 to 1959



Source: Basic data from Survey of Current Business, XL (March, 1960), pp. S1, S11; and Statistical Abstract: 1959, pp. 5, 304.

Graph 18.

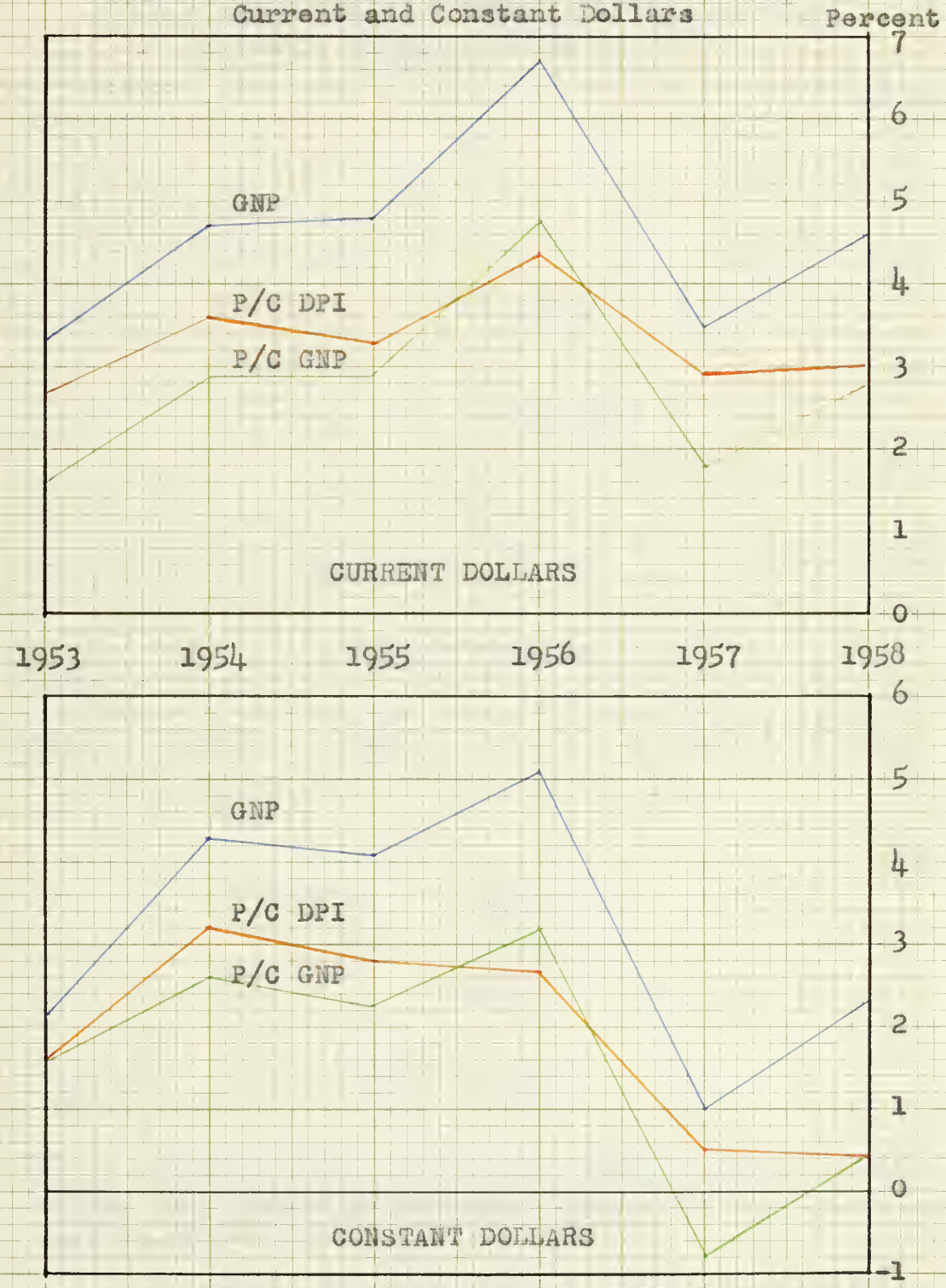
Percent Annual Change in Gross National Product, Per Capita Gross National Product, and Per Capita Disposable Personal Income, in Constant Dollars: 1954 to 1959



Sources: Basic data from Statistical Abstract: 1959, pp. 5, 304, 333; and Survey of Current Business, XL (March, 1960), pp. S1, S6, S11.

Graph 19.

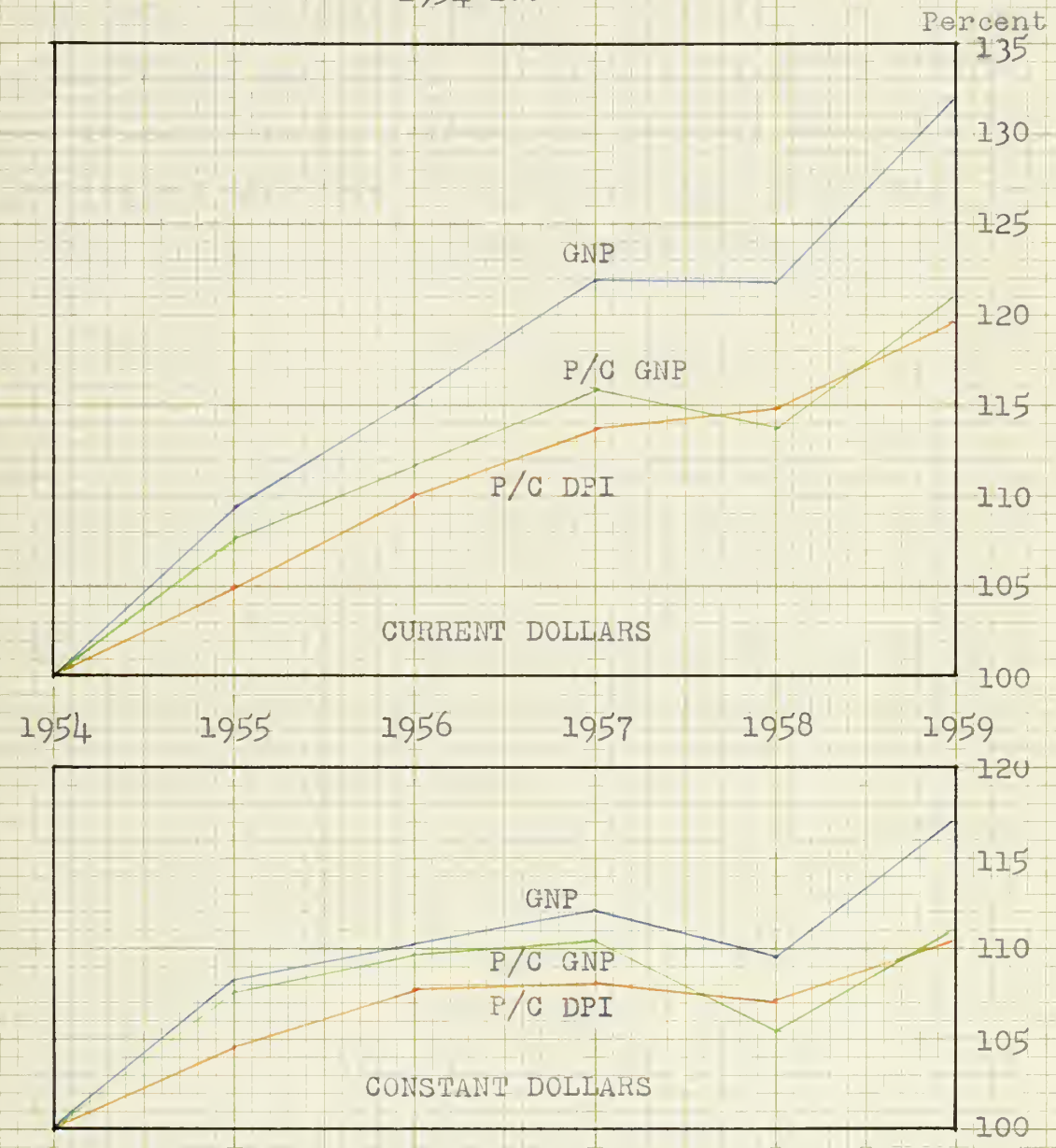
Trend Comparisons: Percent Annual Change in Three Year Moving Averages of GNP, Per Capita GNP, and Per Capita Disposable Personal Income, in Current and Constant Dollars



Sources: Basic data from Statistical Abstract: 1959, pp. 304, 333; and Survey of Current Business, XL, (March, 1960), pp. S1, S6, S11.

Graph 20.

Trend Comparisons: Gross National Product, Per Capita Gross National Product, and Per Capita Disposable Personal Income, in Current and Constant Dollars: 1954 to 1959: 1954=100



Sources: Basic data from Statistical Abstract: 1959, p. 5; Economic Indicators (March, 1960), pp. 2, 6, 23; and Survey of Current Business XL, (March, 1960), pp. S1, S6, S11.

real per capita disposable personal income of less than one percent each year is totally unsatisfactory from the standpoints of national stature and the well being of individual citizens.

Per capita disposable personal income is not the sole index of individual well-being. Citizens get benefits from government expenditures for projects and purposes that are beyond the ability and resources of the individual. In the next chapter we will examine the government sector of the economy.

IV. FEDERAL GOVERNMENT FINANCES

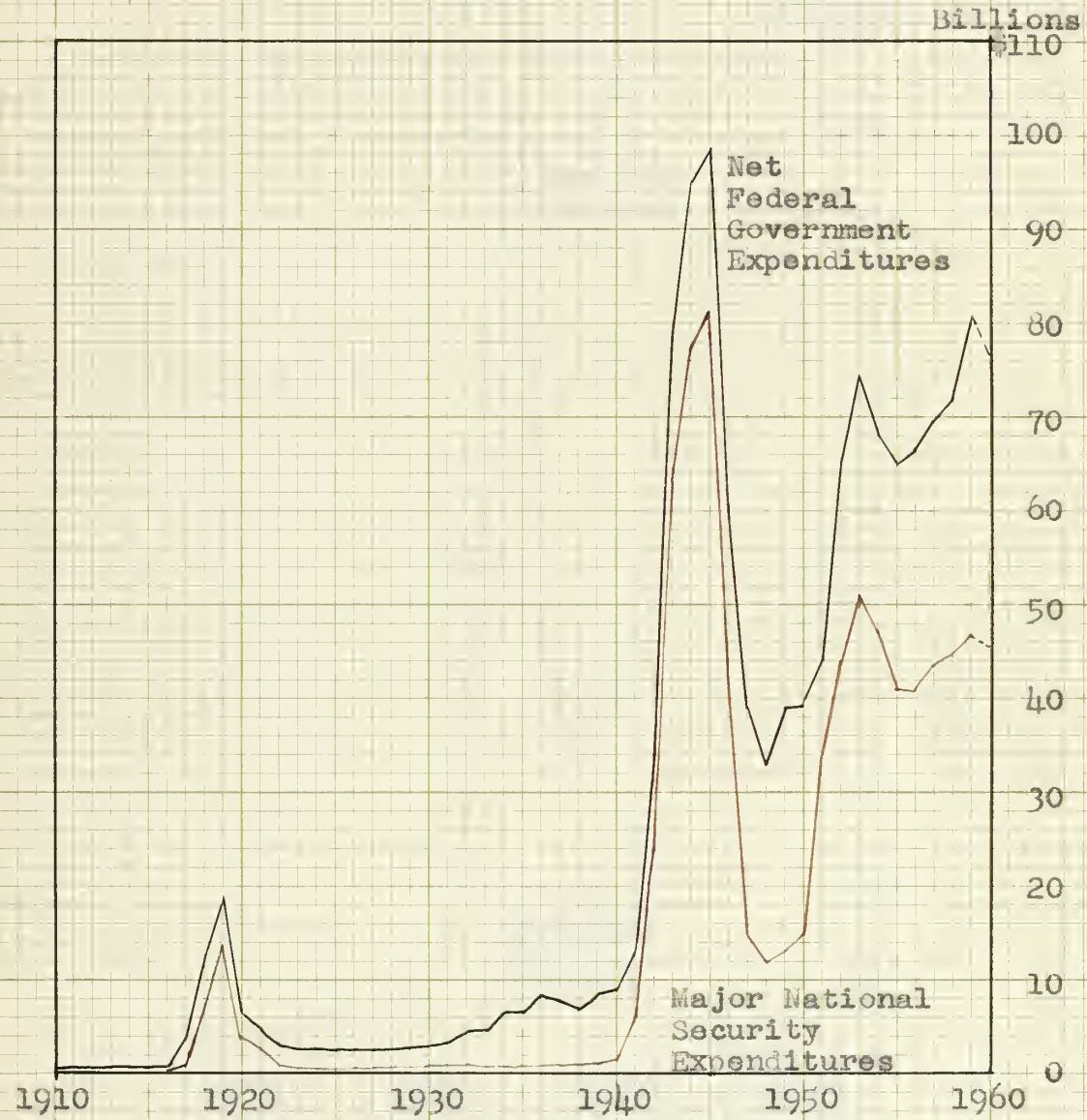
Federal government expenditures have grown astronomically in the past twenty years (graph 21, page 38). Much, but by no means all, of this growth in spending can be attributed to the costs of wars, past and present, hot and cold. The growth in government spending is impressive even when the effects of inflation (graph 22, page 39) and population growth (graph 23, page 40) are considered. Real per capita government expenditures (graph 23) have stayed fairly constant since 1952. The long term trend in federal government expenditures in terms of percentage of gross national product has been upward (graph 24, page 41). The portion of gross national product allocated to major national security expenditures has remained a constant ten percent since the Korean War.

The rise in government expenditures has been financed by taxes and deficit financing. Federal government gross debt jumped enormously during World War II, from about $47.5 billion in 1939 to about $269.4 billion in 1946. Debt declined betwean 1946 and 1950. Since 1950, however, the debt has increased about $28 billion (graph 25, page 42). This is approximately an eleven percent increase over the last decade.

Deficit financing has been denounced as a cause of inflation. The rising federal debt has been censured as an unjust mortgage on the income of future generations. The critical

Graph 21.

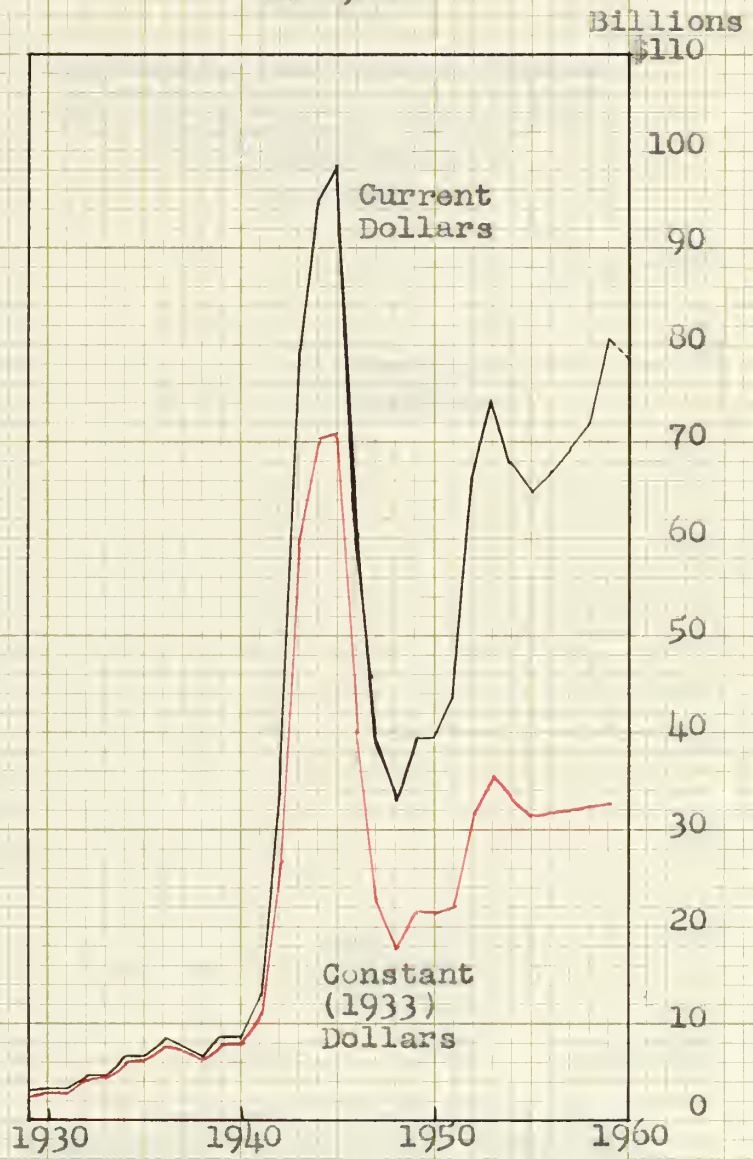
Total Net Federal Government Expenditures and Major National Security Expenditures: 1910 to 1960



Sources: Historical Statistics: 1789-1945, pp. 299-301; Statistical Abstract: 1959, pp. 364, 368; and Economic Indicators, (March, 1960), pp. 2, 31.

Graph 22.

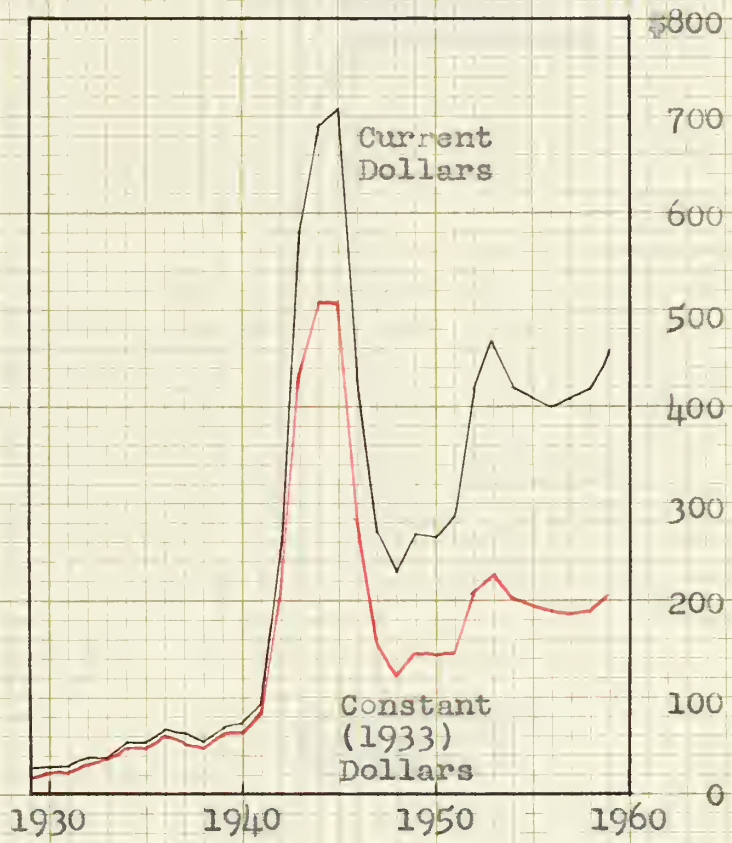
Total Net Federal Government Expenditures in Current and Constant (1933) Dollars: 1929 to 1960



Sources: Basic data from Historical Statistics, 1789-1945, pp. 231, 299-301; Statistical Abstract: 1959, pp. 333, 364; and Economic Indicators (March, 1960), pp. 23, 31.

Graph 23.

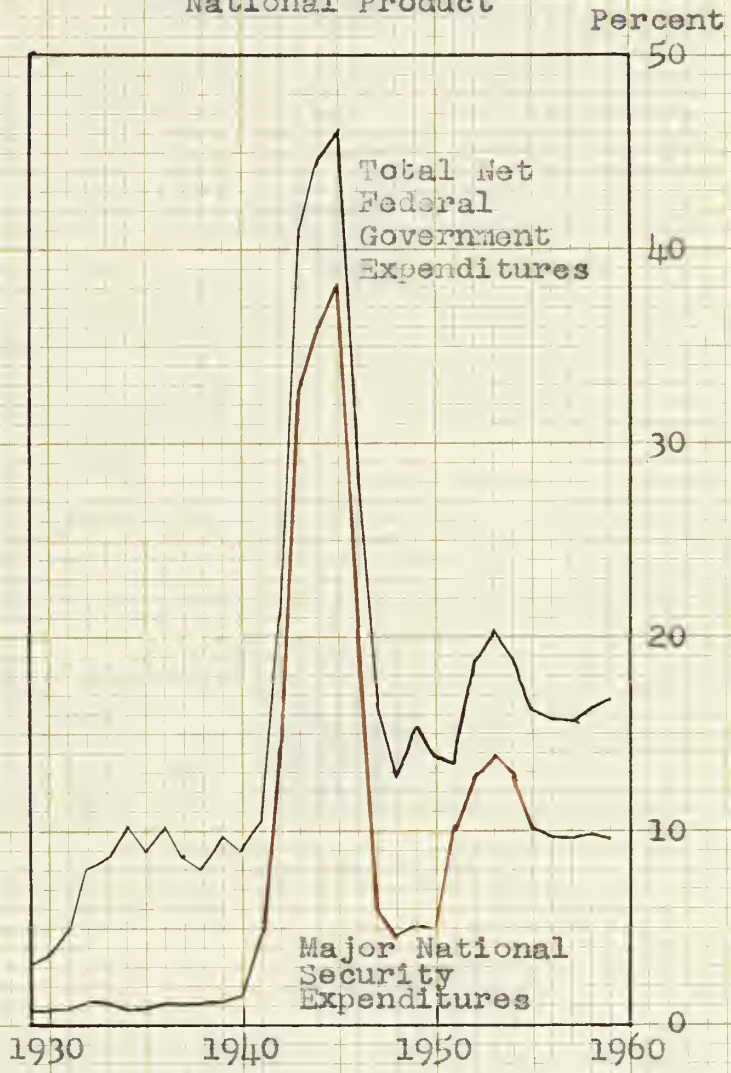
Per Capita Net Federal Government Expenditures in Current and Constant (1933) Dollars: 1929 to 1959



Sources: Basic data from Historical Statistics, 1789-1945, pp. 231, 299-301; Statistical Abstract: 1959, pp. 333, 364, 368; and Survey of Current Business (March, 1960), pp. S1, S6, S11.

Graph 24.

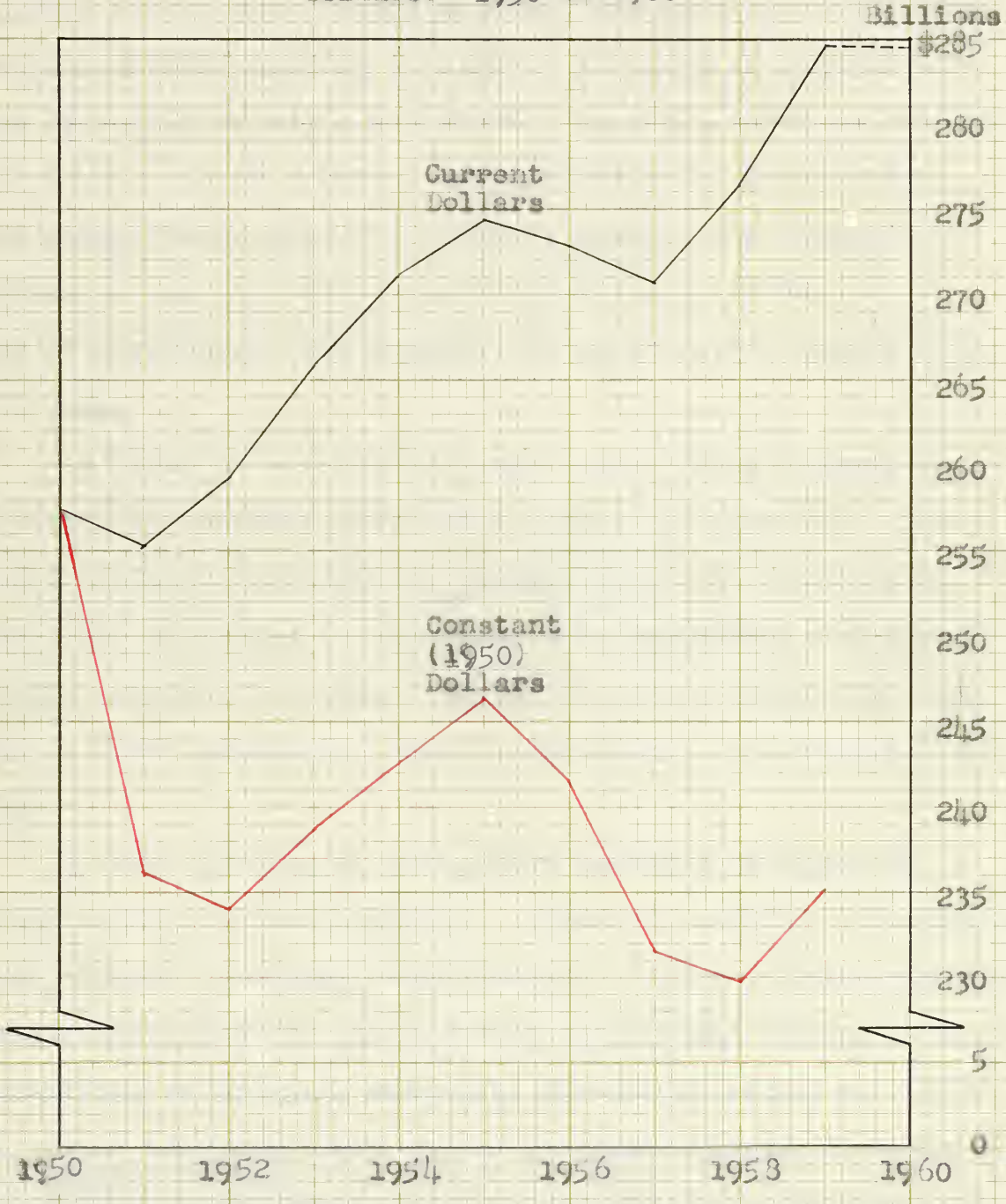
Total Net Federal Government Expenditures and Major National Security Expenditures as a Percentage of Gross National Product



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 299-301; Statistical Abstract: 1959, pp. 304, 364, 368; and Economic Indicators (March, 1960), pp. 2, 31.

Graph 25.

Federal Government Total Gross Debt
in Current and Constant (1950)
Dollars: 1950 to 1960



Source: Basic data from Statistical Abstract : 1959, pp. 333, 364.

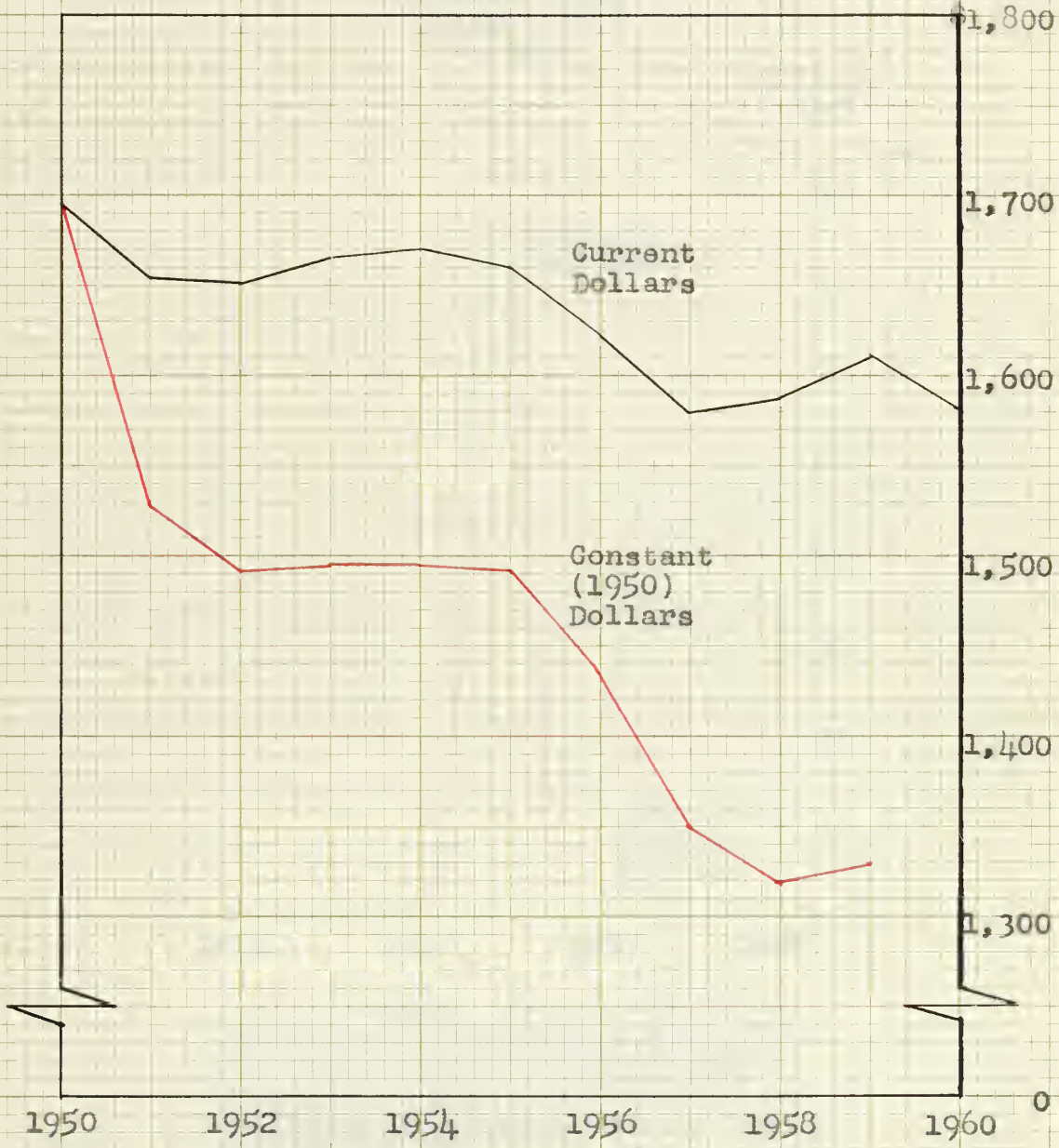
attitude of some toward public debt has always seemed rather incongruous to me when it is contrasted with the approbation which most people display toward the use of debt by private business to engender future growth. The inability of federal accounting and budgeting to clearly distinguish between current operating expenses and capital expenses tends to confuse this issue. In my opinion, any discussion of federal debt must weigh the burdens of repayment against the legacies of government capital improvements and the preservation of our form of government, the benefits of which future generations will reap.

In terms of purchasing power, total gross federal debt has actually declined since 1950 (graph 25, page 42). Inflation affects debt holders adversely, but it benefits tax payers who will have to sacrifice less purchasing power when, and if, the debt is repaid. Debt per person (graph 26, page 44), in both current and constant dollars, has declined since 1950.

A large portion of government spending is required to maintain our national security. Graph 27, page 45, illustrates major national security expenditures. "Major national security" includes spending for the armed forces, atomic energy, defense stockpiling of critical material, and mutual security. Since the end of the Korean War, major national security expenditures have tended to increase. In 1955 and 1956 we spent about $41 billion annually. Currently, we are spending about $46 billion.

Graph 26.

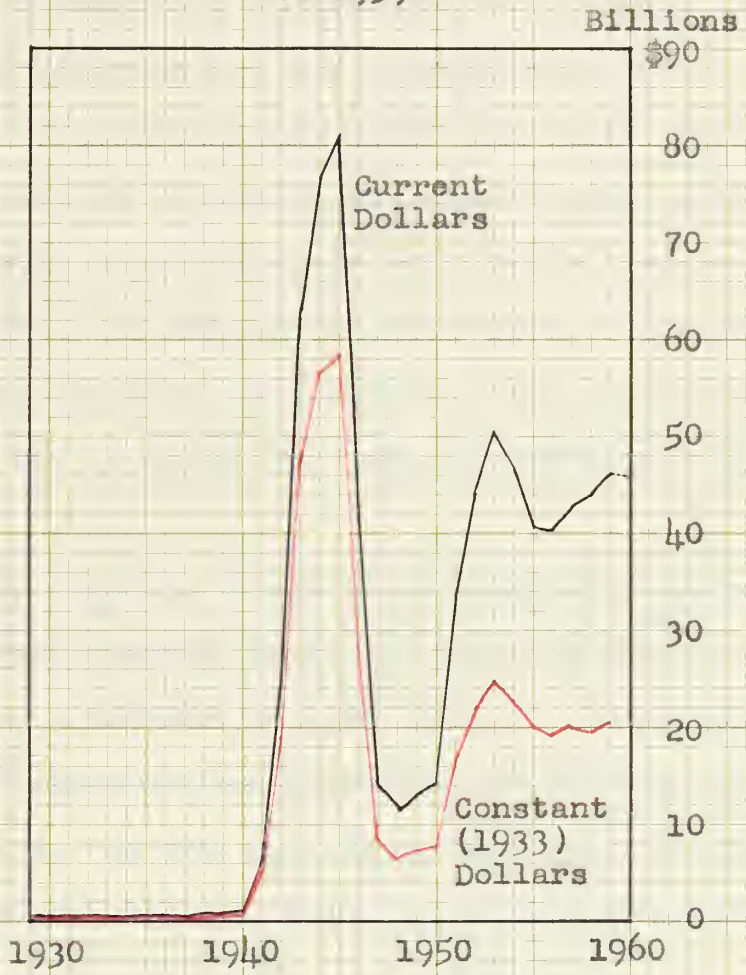
Per Capita Federal Gross Debt
in Current and Constant
(1950) Dollars:
1950 to 1960



Source: Basic data from Statistical Abstract: 1959, pp. 333, 364.

Graph 27.

Major National Security Expenditures in Current and Constant (1933) Dollars: 1929 to 1959



Sources: Basic data from Historical Statistics, 1789-1945, pp. 231, 299-301; Statistical Abstract: 1959, pp. 333, 368; and Economic Indicators (March, 1960), pp. 23, 31.

In terms of purchasing power, we have maintained major national security spending at a constant level since 1955. These same trends are evident when major national security expenditures are placed on a per capita basis (graph 28, page 47).

Current discussions of our national defense stature touch on our ability to pay for a particular level of defense expenditures. Graph 29, page 48, depicts major national security expenditures as a percent of total federal government expenditures, total disposable personal income, and total gross national product. By anyterm of reference, it is apparent that in the past we have been able to allocate a much higher percentage of our resources to national defense than we are now doing.

Graph 30, page 49, shows total federal government expenditures, gross federal debt, and major national security expenditures as a percent of 1954 levels. Since 1954, total net government expenditures increased ten percent in terms of constant dollars. At the same time, real debt declined three percent, and major national security expenditures declined nine percent.

Graph 31, page 50, compares percapita major national security expenditures and per capita disposable personal income. Per capita major national security expenditures relative to percapita disposable personal income has declined steadily since the Korean War. Graph 31 is an attempt to relate the amount of defense purchased with the ability to pay.

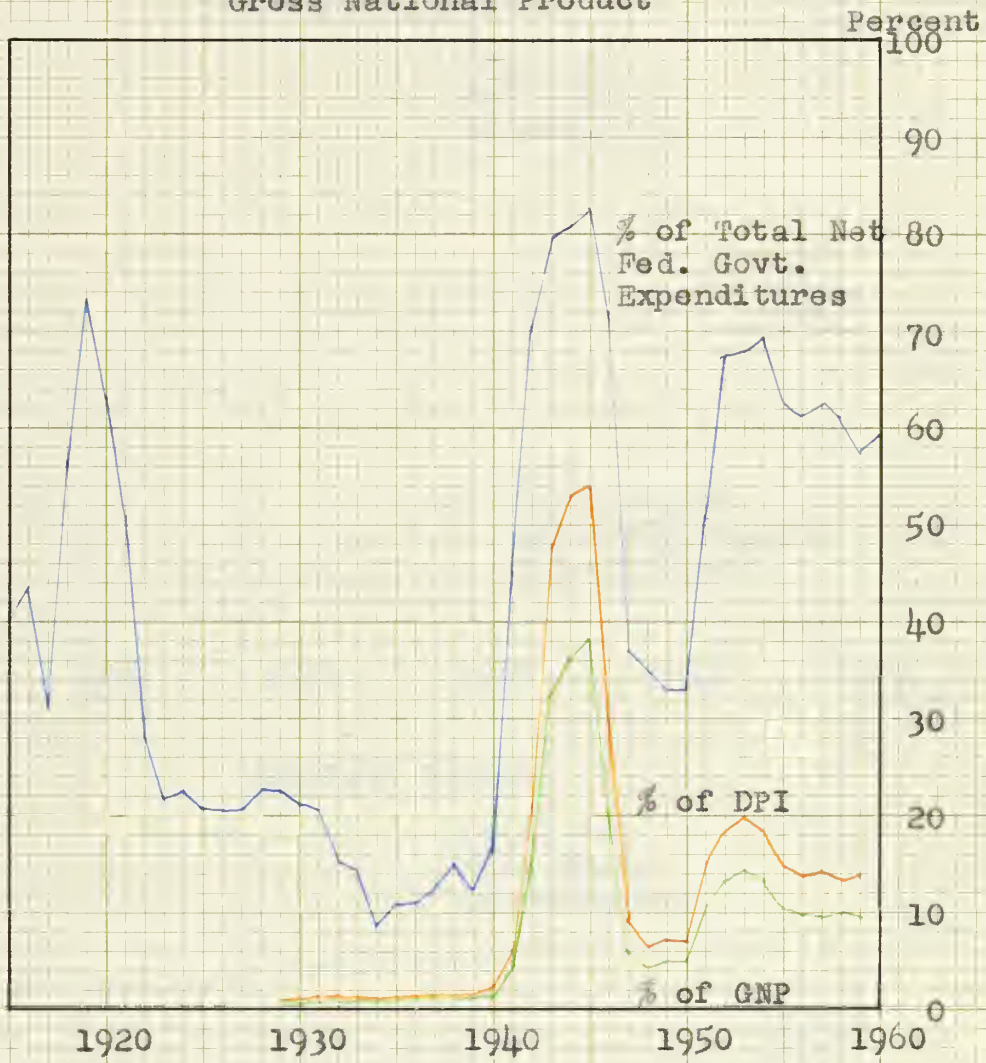
Graph 28.

Per Capita Major National Security Expenditures in Current and Constant (1933) Dollars: 1929 to 1959

Sources: Basic data from Historical Statistics, 1789-1945, pp. 231, 299-301; Statistical Abstract: 1959, pp. 5, 333, 364, 368; and Survey of Current Business (March, 1960), pp. S1, S6, S11.

Graph 29.

Major National Security Expenditures as a Percent of Total Net Federal Government Expenditures, Total Disposable Personal Income, and Gross National Product



Sources: Basic data from Historical Statistics, 1789-1945, pp. 12, 299-301; Statistical Abstract: 1959, pp. 244, 305, 364, 367, 368; and Economic Indicators (March, 1960), pp. 2, 3, 31.

Graph 30.
Trends in Total Net Federal Government Expenditures, Total Major National Security Expenditures, and Gross Debt, in Current and Constant Dollars: 1954=100

Source: Basic data from Economic Indicators (March, 1960), pp. 23, 31.

Graph 31.

Per Capita Major National Security Expenditures as a Percent of Per Capita Disposable Income

Source: Basic data from Statistical Abstract: 1959, pp. 5, 304, 364, 368.

Graph 32, page 52, demonstrates per capita trends, in current and constant dollars, as percentages of 1954 figures. Since 1954 per capita government current dollar expenditures have increased ten percent, but have stayed constant in terms of purchasing power. Per capita government debt and major national security expenditures have declined in terms of both current and constant dollars.

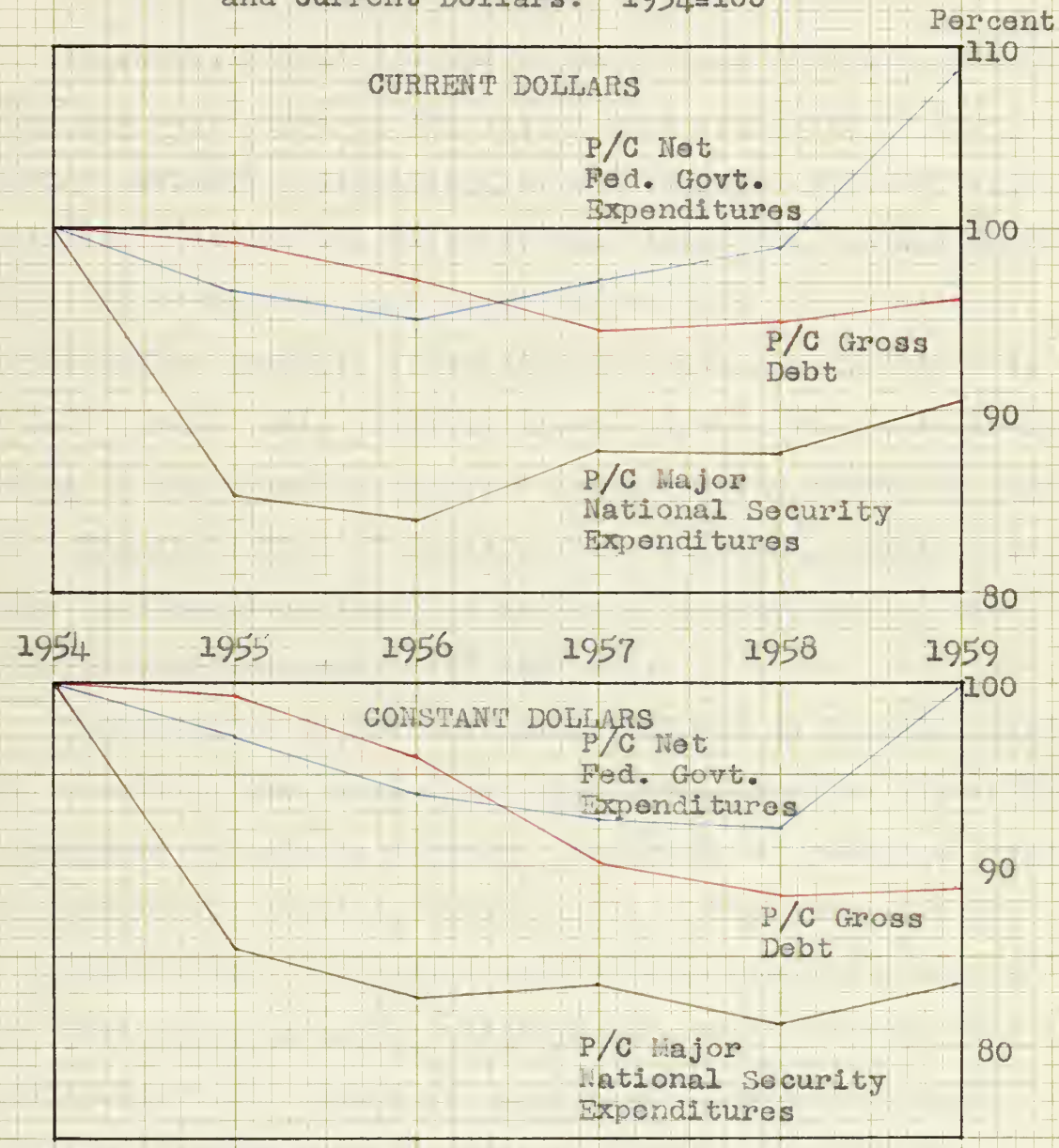
All of the trends in this chapter demonstrate that while spending for national defense may be on the upswing in terms of current dollars, it is level in terms of purchasing power. On a per capita basis, disposable income is up while federal debt and defense spending are down. In other words, on a per capita basis, our ability to buy more defense is increasing while the actual amount of defense we are buying is decreasing. These trends may be desirable if, and it is a large if, the level of defense spending is adequate to insure our survival. By survival I refer not only to life and death survival, but also to survival as a first class world power.

In my opinion, any advocacy of present defense spending levels using the argument that we cannot afford higher levels of spending is subject to serious questioning.

In the succeeding chapter we will examine what we are buying with our defense dollars.

Graph 32.

Trends in Per Capita Net Federal Government Expenditures, Per Capita Major National Security Expenditures, and Per Capita Federal Government Gross Debt, in Constant and Current Dollars: 1954=100



Sources: Basic data from Statistical Abstract: 1959, pp.5, 364; Survey of Current Business (March, 1960), pp. S1, S6, S9; Economic Indicators (March, 1960), pp. 23, 31.

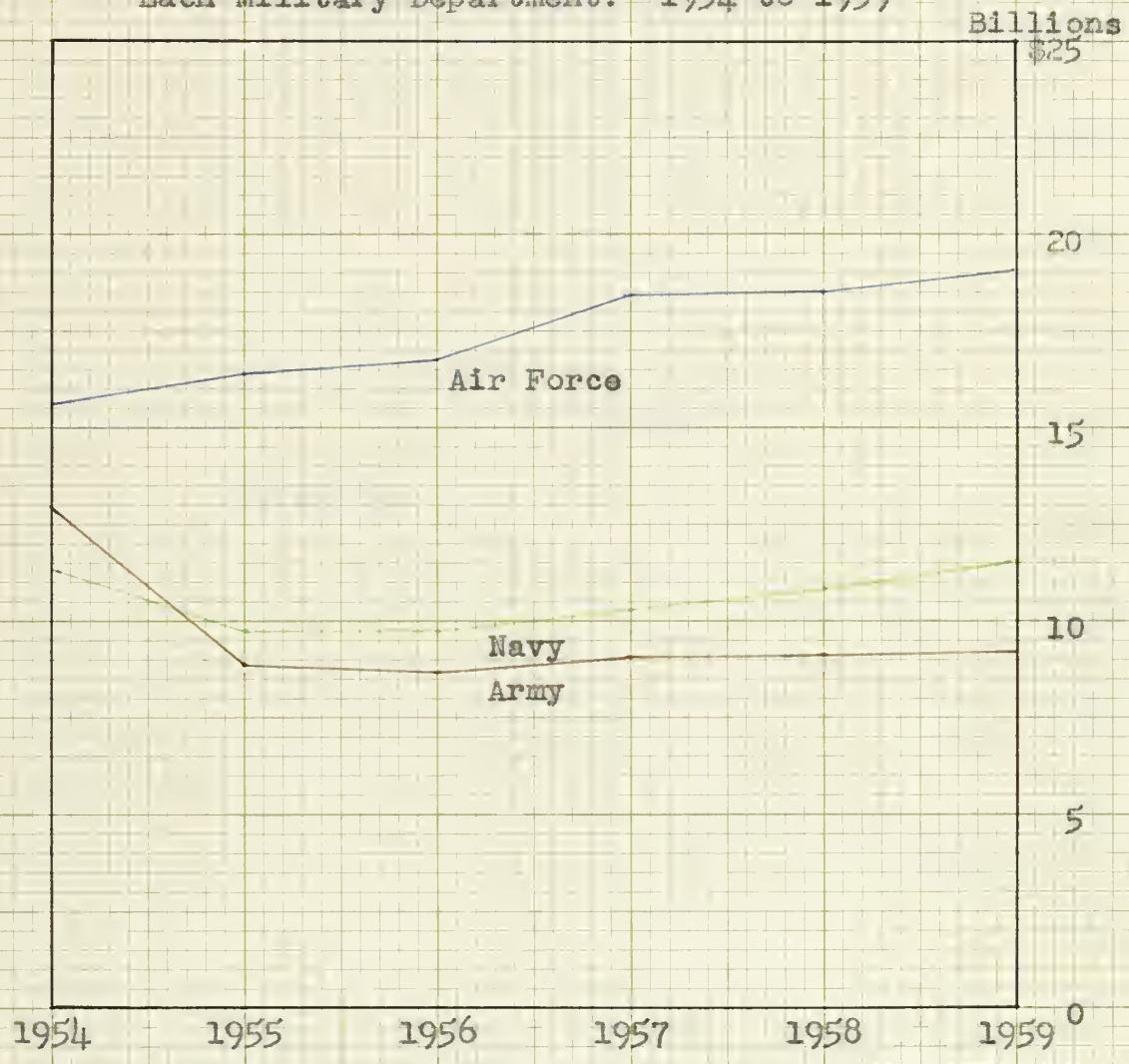
V. DEFENSE SPENDING

Since the Korean War the United States national defense policy has been based on the theory that we should utilize our superior national characteristics and conserve our most valuable assets. We are the most advanced industrial nation in the world. It is natural that we should utilize our technology and productive capacity to produce war machines and minimize the use of men. This decision seemed particularly reasonable in view of the superior manpower assets of our potential enemies. The allocation of funds to the individual services reflects this basic decision to emphasize technology and deemphasize manpower (graph 33, page 54).

Inflation of course has had its effect on defense spending. I have no idea what index might best describe the effects of inflation on defense spending. Probably no published price index adequately describes the erosion of the defense dollar due to inflation. During the period 1954-1959 the Bureau of Labor Statistics' consumer and wholesale price indexes were roughly comparable (graph 34, page 55). I have arbitrarily applied the consumer price index to service spending since the Korean War to get some idea of the effects of inflation. Graph 35, page 56, depicts defense spending in terms of purchasing power, using 1954 constant size dollars. This application of deflationary factor results in an eight percent

Graph 33.

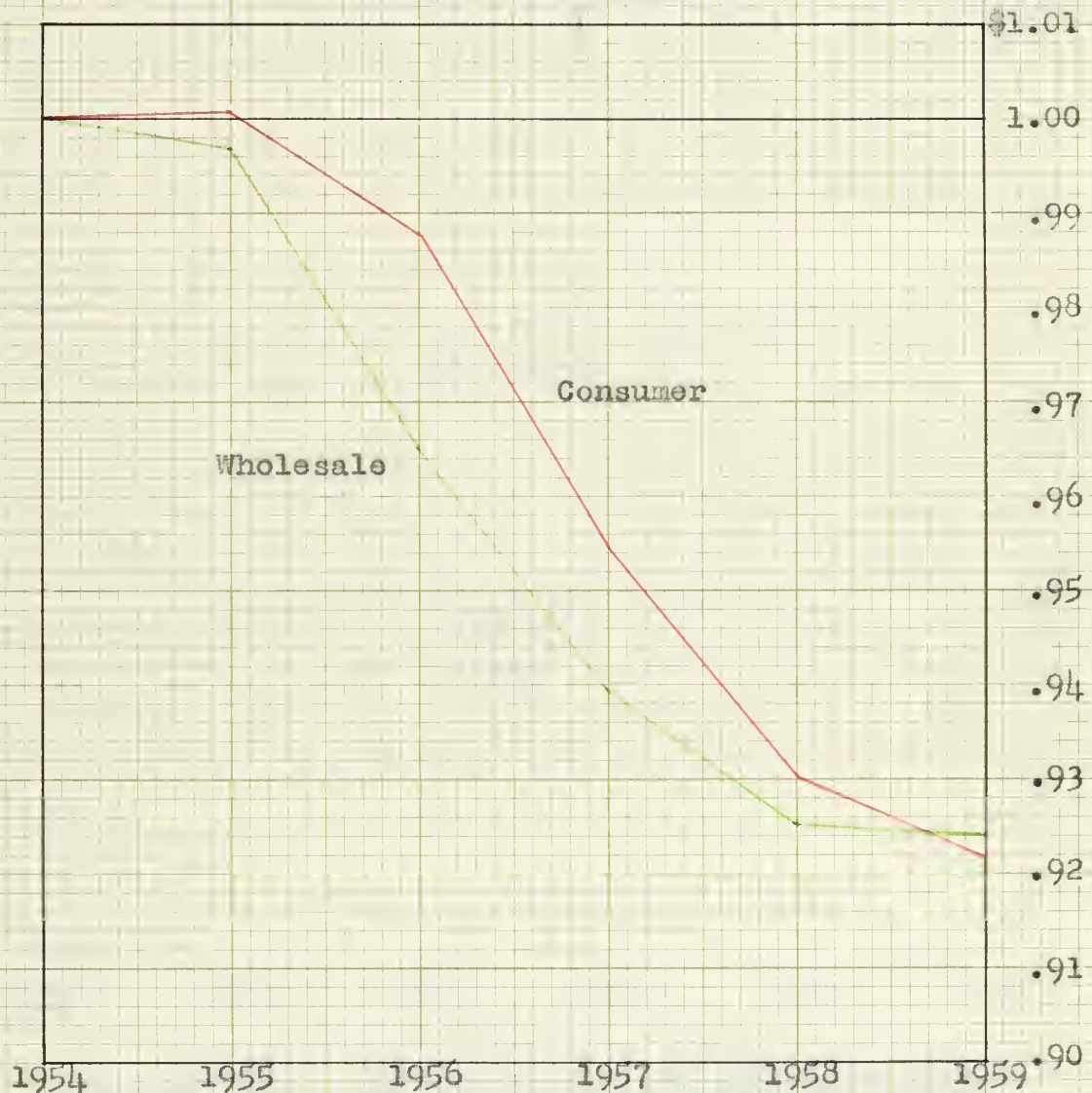
Annual Expenditures for Military Functions by Each Military Department: 1954 to 1959



Source: Statistical Abstract: 1959, p. 366.

Graph 34.

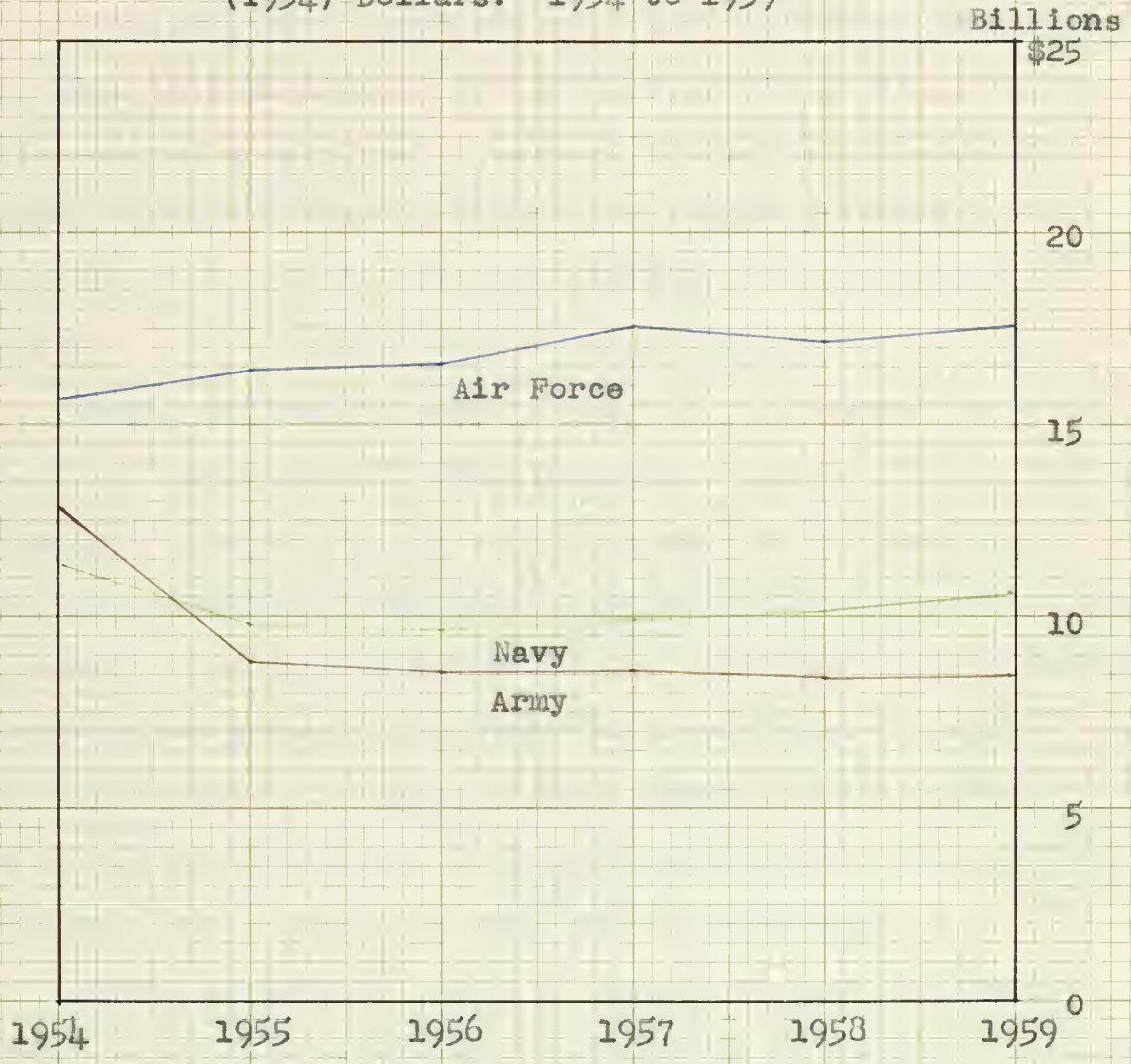
Comparison of the Effects of the Bureau of Labor Statistics Consumer and Wholesale Price Indexes on the Purchasing Power of a Current Dollar: 1954=100



Source: Basic data from Economic Indicators (March, 1960), pp. 23, 24.

Graph 35.

Annual Expenditures for Military Functions by Each Military Department in Constant (1954) Dollars: 1954 to 1959



Sources: Basic data from Statistical Abstract: 1959, pp. 366, 368; and Economic Indicators (March, 1960), pp. 23, 31.

erosion of purchasing power of current dollars during the 1954-1959 period. Technological improvements in equipment combine with inflation to push up price tags on units of equipment. Prices of individual items may well have increased many times more than is indicated by the consumer price index. Dollars alone are not a very precise measurement of national defense capabilities. In many instances the dollar totals stay constant while the number of units purchased or maintained declines.

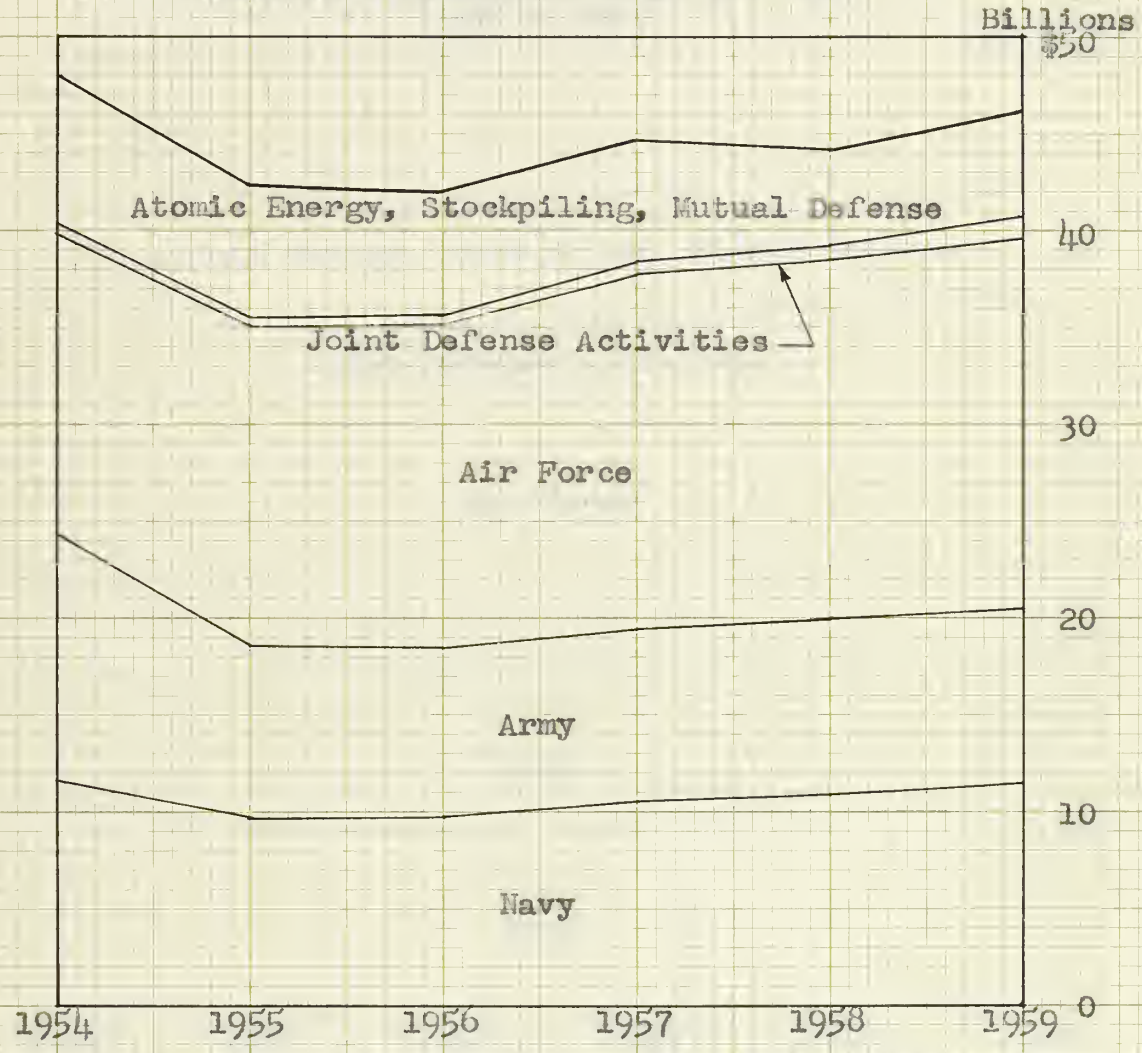
Graphs 36 and 37, pages 58 and 59, illustrate expenditures for components of major national security for the period 1954-1959. Graphs 38, 39, and 40; pages 60, 61, and 62; give the percentage breakdown of expenditures for major national security and military functions of the Department of Defense. These various graphs illustrate the term "level funding." Navy expenditures for example have stayed within limits of 27% to 28% of Department of Defense expenditures for military functions over a period of five years, 1954-1959.

Graphs 41 and 42, pages 63 and 64, depict the mix of defense purchases among the components of personnel, operations and maintenance, and major procurement. The de-emphasis of personnel is not too apparent from the expenditure graphs. Actual personnel strengths are illustrated in Graph 43, page 65. The Army has taken the brunt of the manpower cuts.

Graph 44, page 66, shows the items purchased with the major procurement expenditures. The shift from manned aircraft

Graph 36.

Total Annual Expenditures for Major National Security: 1954 to 1959



Source: Basic data from Statistical Abstract: 1959, pp. 366, 368.

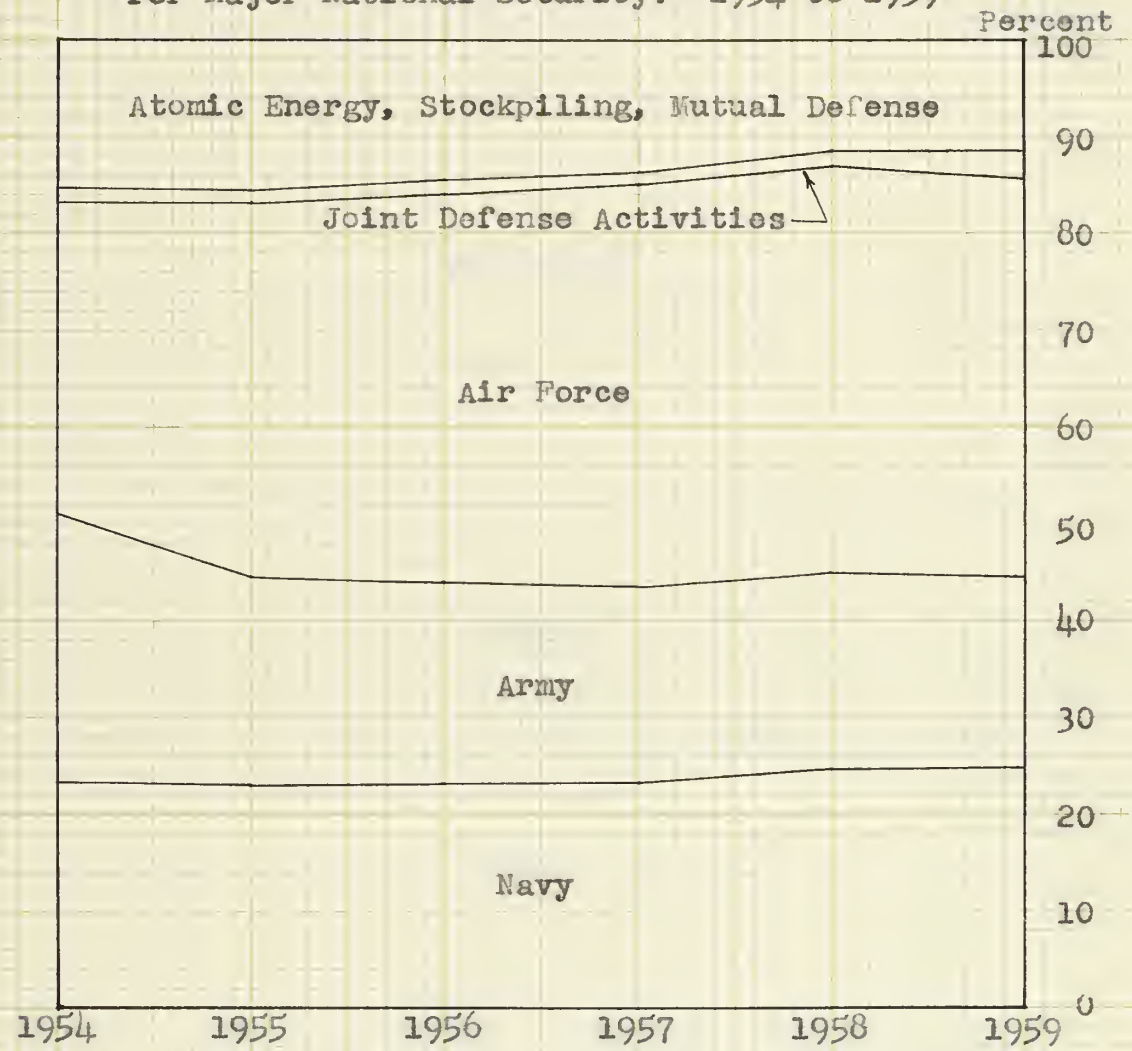
Graph 37.

Total Annual Expenditures for Major National Security in Constant (1954) Dollars: 1954 to 1959

Sources: Basic data from Statistical Abstract: 1959, pp. 366, 368; and Economic Indicators (March, 1960), pp. 23, 31.

Graph 38.

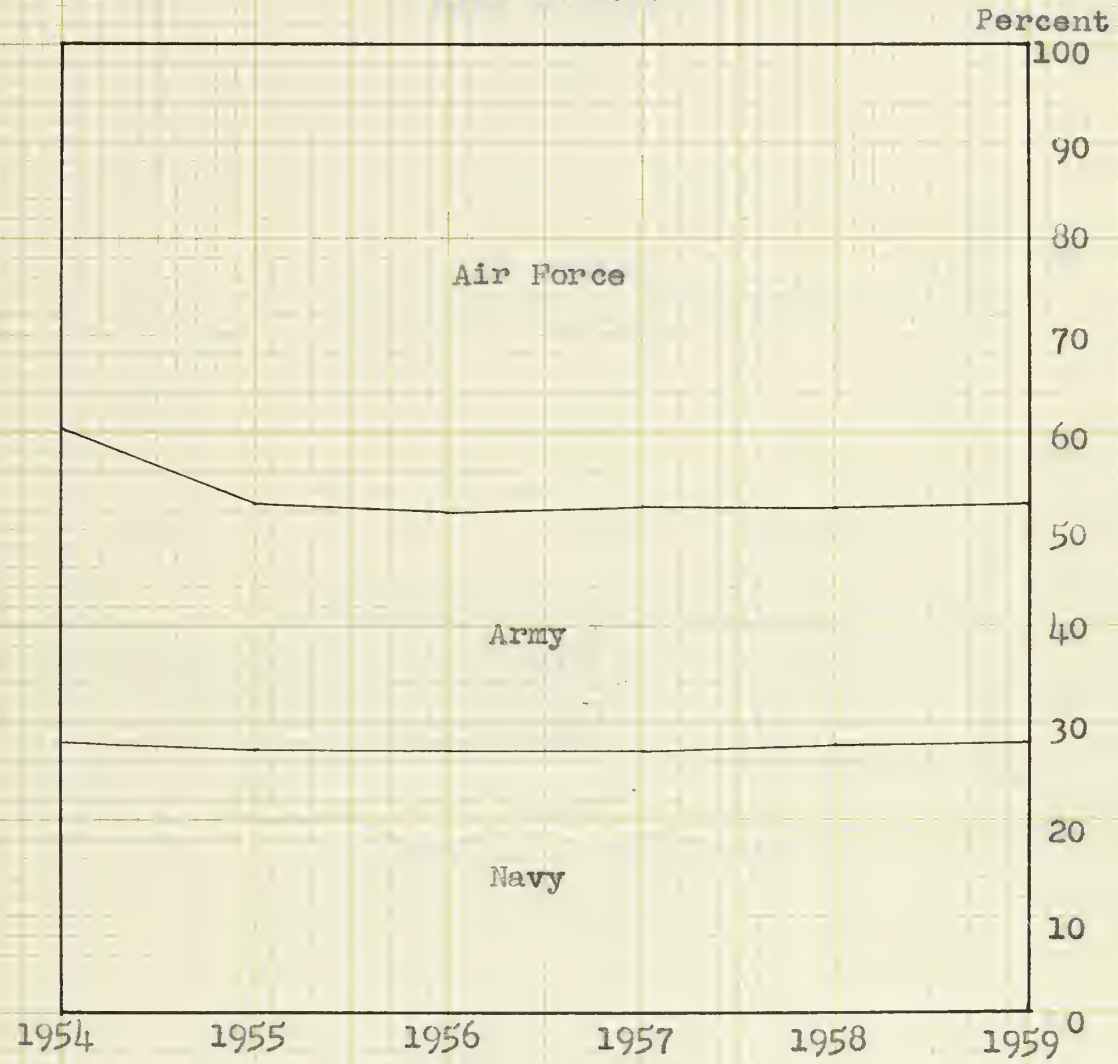
Percentage Distribution of Annual Expenditures for Major National Security: 1954 to 1959



Source: Basic data from Statistical Abstract: 1959, pp. 366, 368.

Graph 39.

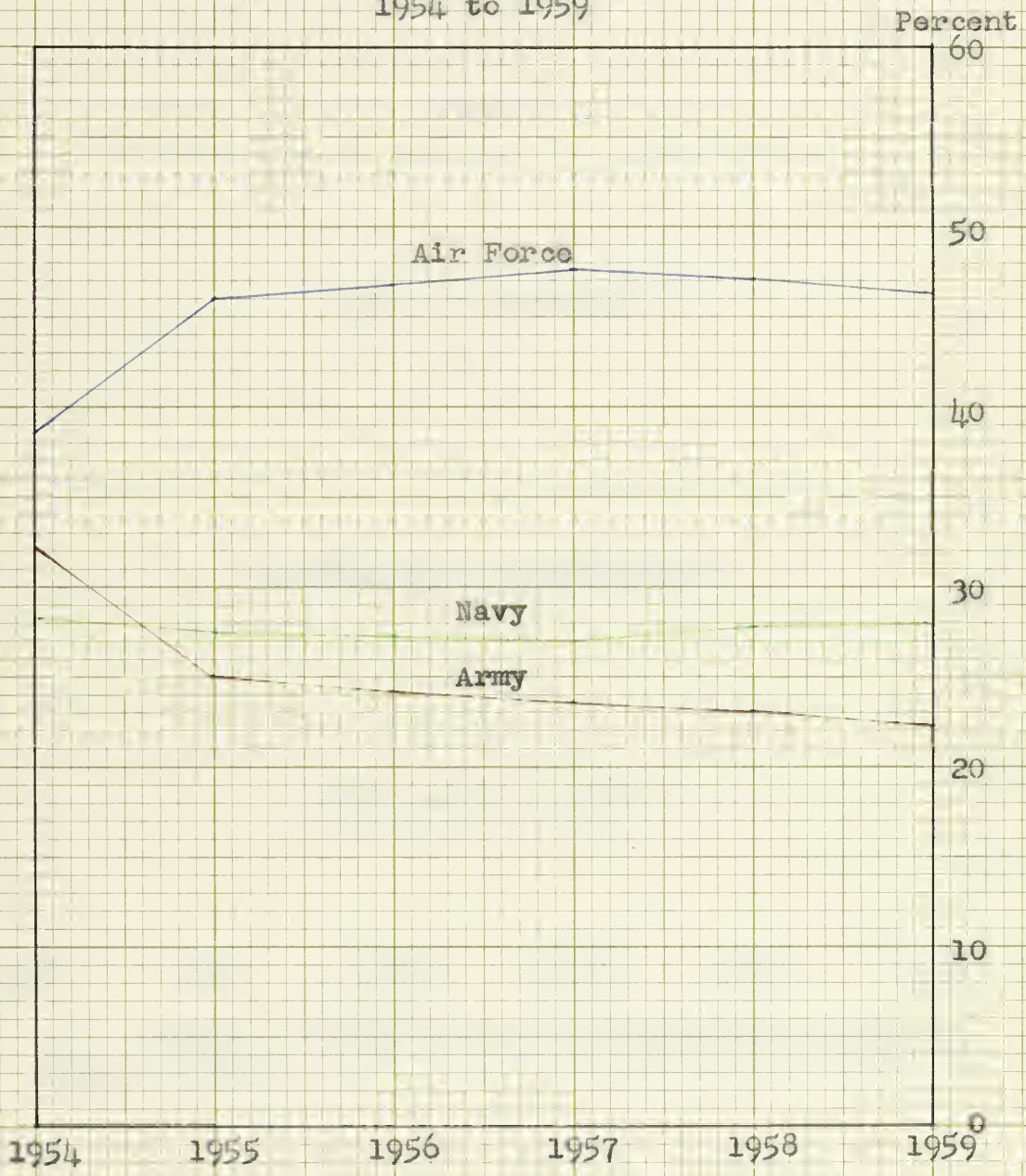
Percentage Distribution of Annual Department of Defense Expenditures for Military Purposes: 1954 to 1959



Source: Basic data from Statistical Abstract: 1959, pp. 366, 368.

Graph 40.

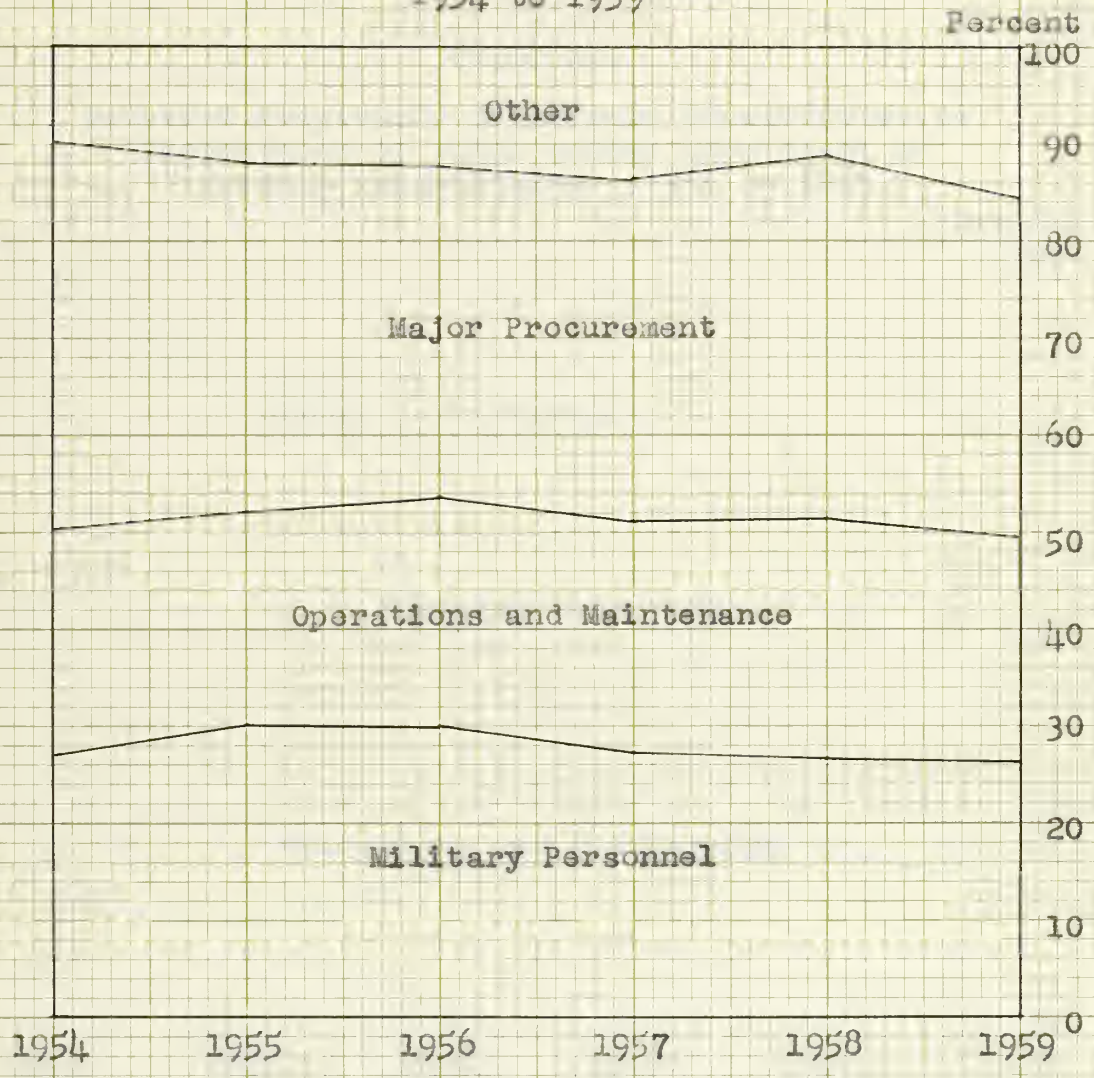
Annual Expenditures of Each Military Department
As a Percent of Total Department of Defense
Expenditures for Military Functions:
1954 to 1959



Source: Basic data from Statistical Abstract: 1959, pp. 366, 368.

Graph 41.

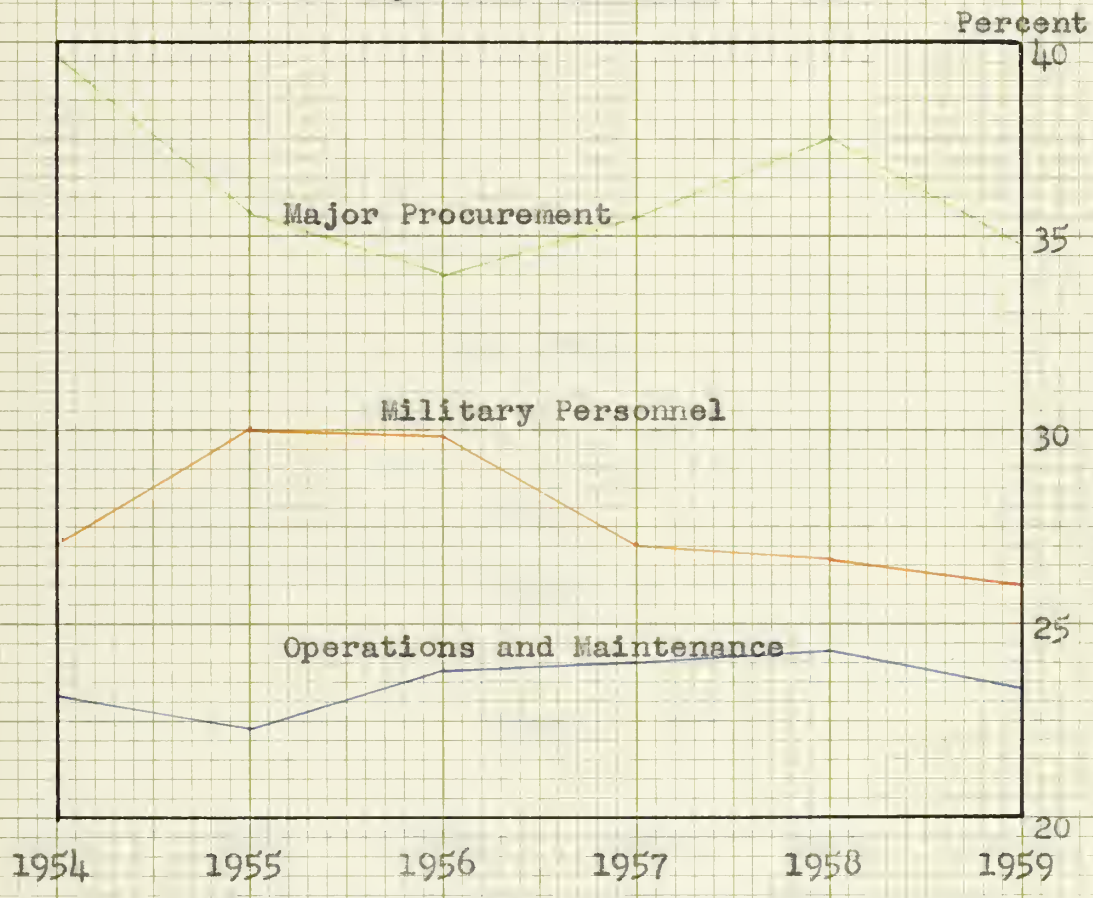
Percentage Distribution of Department of Defense Annual Expenditures by Major Purpose: 1954 to 1959



Source: Basic data from Statistical Abstract: 1959, p. 244.

Graph 42.

Selected Components of Defense Expenditures As Percentages of Total Annual Department of Defense Expenditures: 1954 to 1959



Source: Basic data from Statistical Abstract: 1959, p. 244.

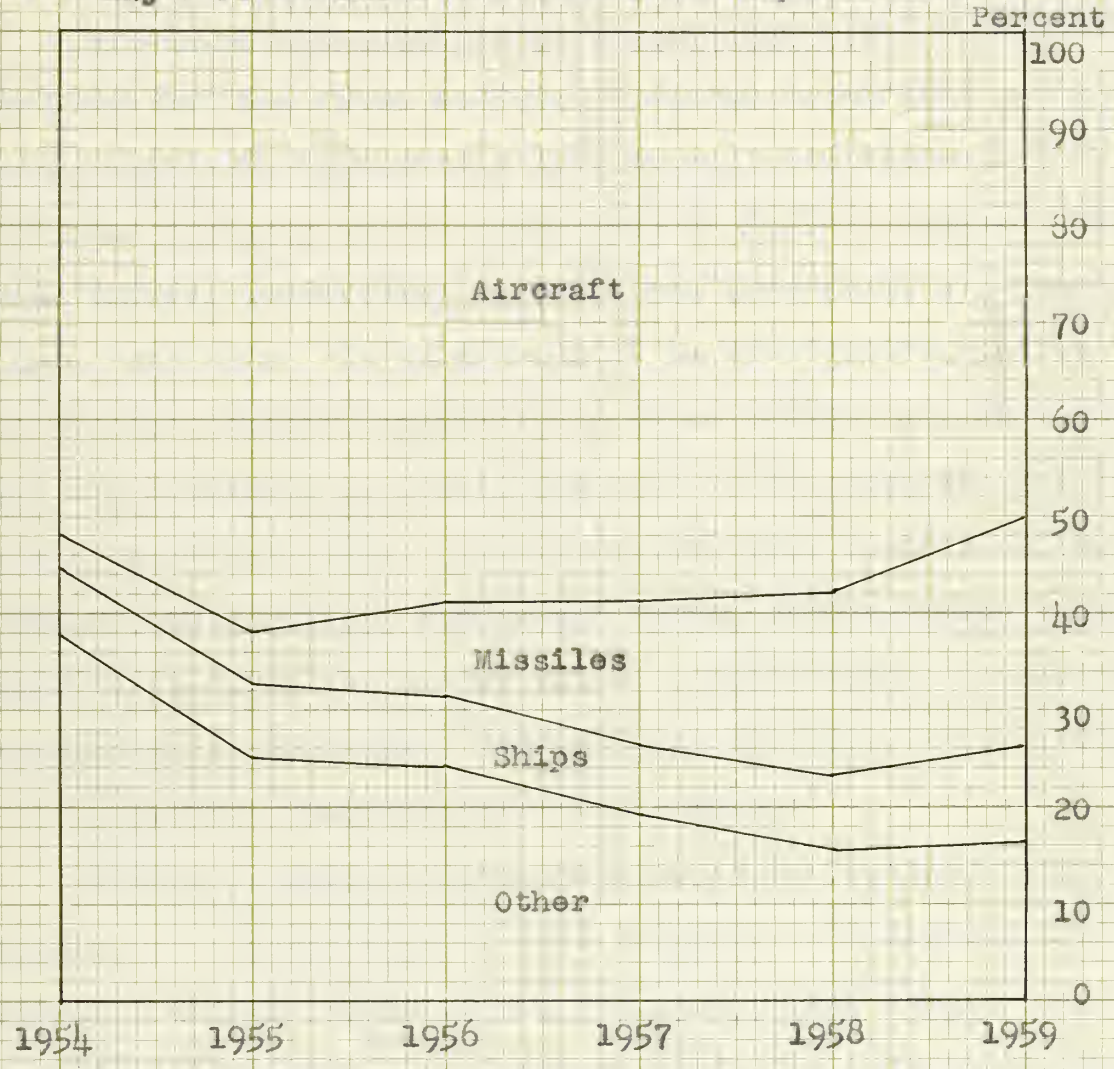
Graph 43.

Military Manpower

Source: Statistical Abstract: 1959, p. 247.

Graph 4.

Major Procurement and Production Expenditures



Source: Statistical Abstract: 1959, p. 244

to missiles is apparent from this graph. Another trend is the declining percentage of expenditures allocated to "other" procurement. The "Other" classification includes such prosaic items as rifles, tanks, and artillery pieces.

Declining personnel strengths and expenditures for conventional weapons raise serious questions concerning our ability to cope with limited war situations. Our allies may look with some disfavor on our employment of nuclear weapons against enemy troops, guerrillas, or political insurgents occupying allied territory. In my opinion it is questionable policy to rely on our nuclear capability to deter limited war situations when our deterrent is itself deterred by the nuclear capability of our potential enemy. Another basic issue in this context concerns the morality, and common sense, of a national doctrine which may require the wiping out of a considerable number of non-combatant men, women, and children who have the misfortune to live within a metropolitan target area.

Trends in defense expenditures, in current and constant dollars, as a percentage of 1954 figures are illustrated in graphs 45 and 46, pages 68 and 69. As you may imagine, in the 1954-1959 period, Air Force expenditures have risen and Army expenditures have fallen. Navy expenditures paralleled the trend for total defense spending. The most spectacular increase in expenditures, up 252% from 1954, was recorded by the Office of the Secretary of Defense for military functions. This increase in Secretary of Defense expenditures was caused

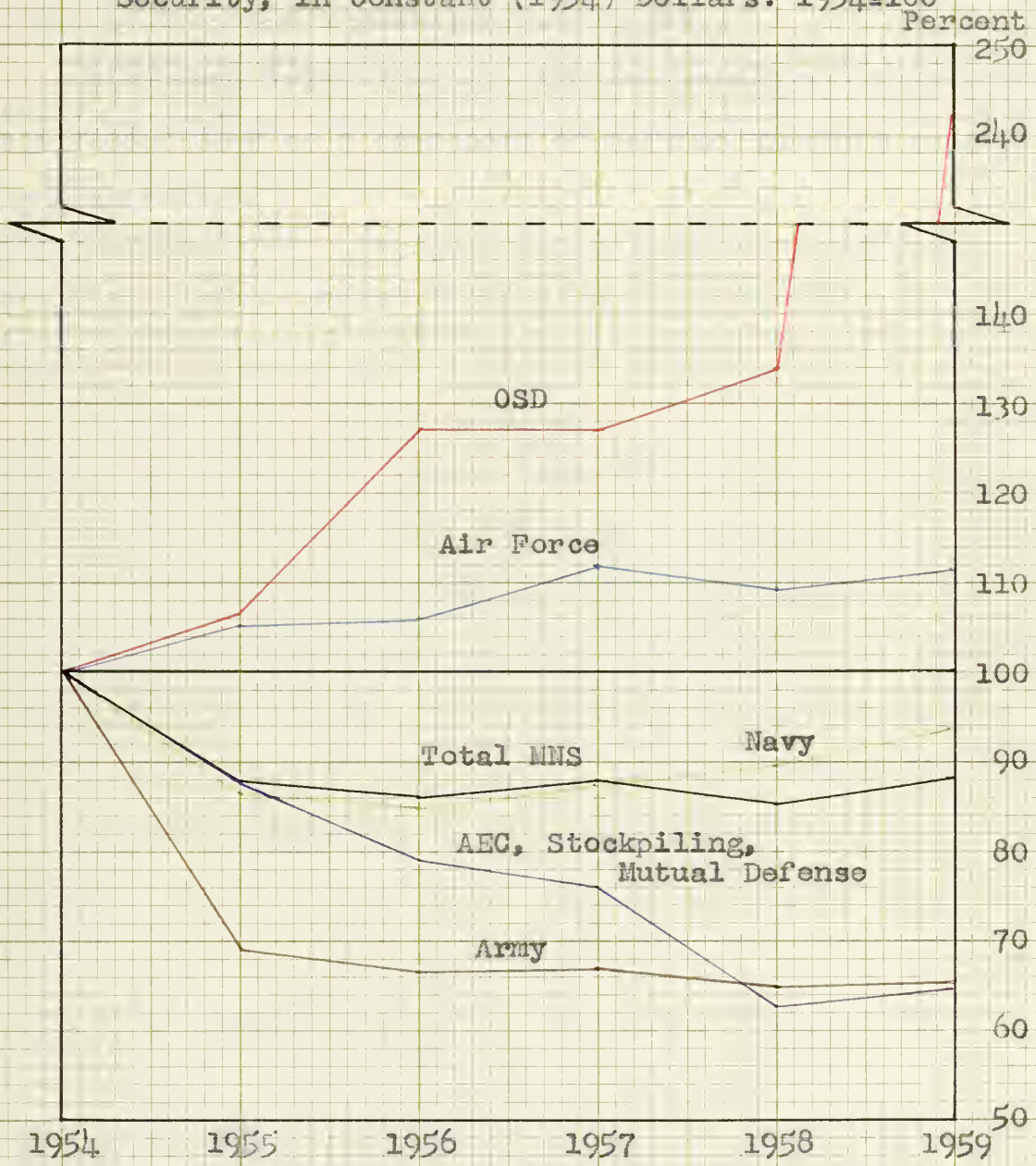
Graph 45.

Expenditure Trends for Elements of Major National Security, in Current Dollars: 1954=100

Source: Basic data from Statistical Abstract: 1959, pp. 366, 368.

Graph 46.

Expenditure Trends for Elements of Major National Security, in Constant (1954) Dollars: 1954=100



Source: Basic data from Statistical Abstract: 1959, pp. 333, 366, 368; and Economic Indicators (March, 1960), p. 23.

to some extent by the Secretary of Defense taking over functions previously paid for by the individual services. I suspect, however, that Parkinson's inexorable law has had its effects on the Office of the Secretary of Defense.

With this brief look at defense spending, let us turn to a closer look at a component of defense spending -- Marine Corps spending.

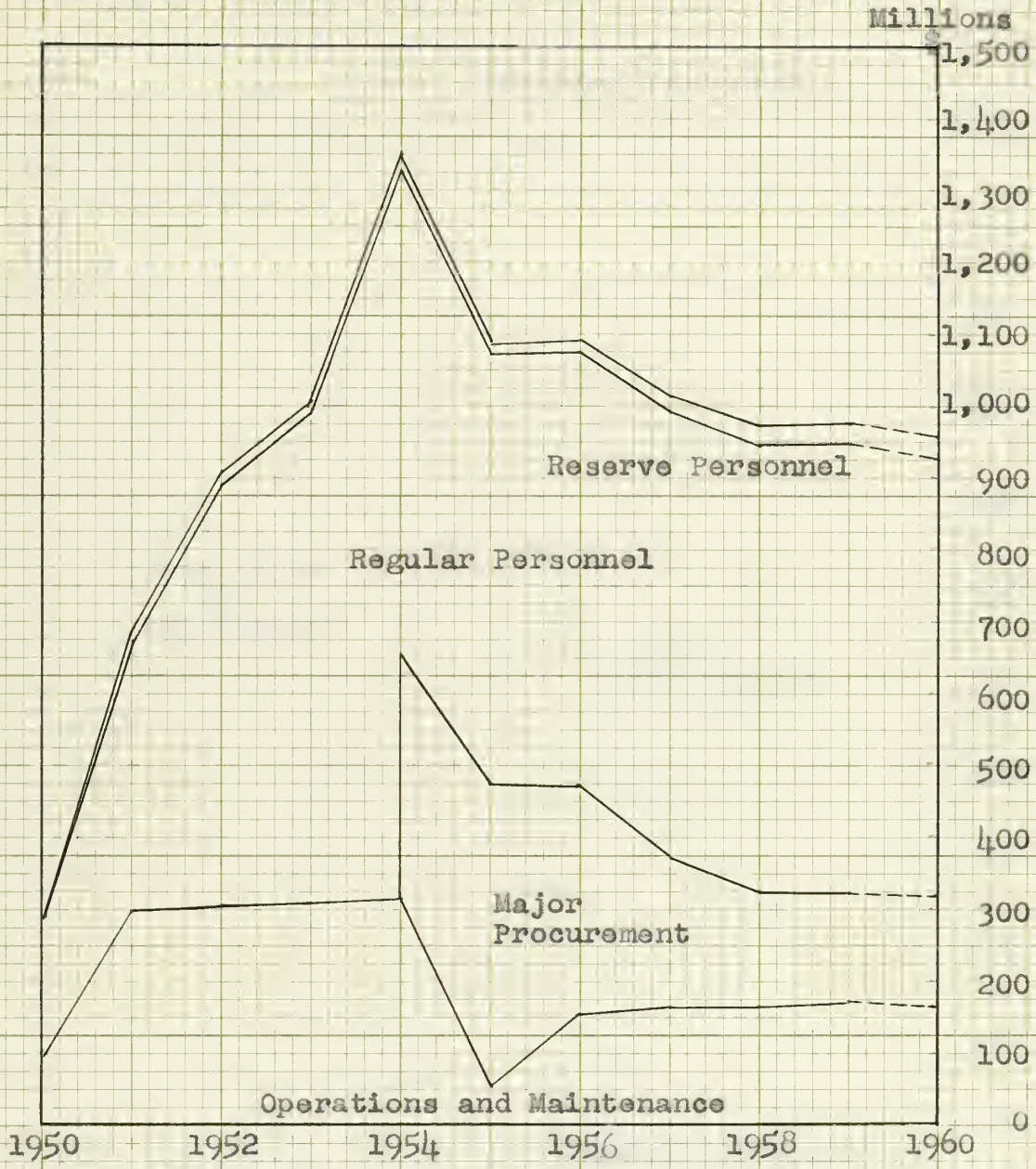
VI. MARINE CORPS SPENDING

The preceding chapters established the tenor of current defense spending. Expenditure ceilings are fixed. Equipment is emphasized rather than men. Per capita spending for defense is declining. This chapter deals with Marine Corps spending trends. Marine Corps expenditures reflect the above trends.

Any study of longer term Marine Corps spending is complicated by several factors. Appropriation structure and purposes have shifted over the years. New appropriation have been added and old ones deleted. Funding responsibility for certain Marine Corps functions has shifted among the Marine Corps, Navy, and Army. For example, a Marine division attached to the Army is partially supported by the Army. Graph 47, page 72, depicts Marine Corps expenditures for the period 1950-1960. 1960 figures are estimates. Graphs 48 and 49, pages 73 and 74, illustrate expenditures by appropriation type. These graphs include expenditures incurred each year for both current year and prior year appropriations. Expenditures built up during the Korean War and tapered off since. The appropriation for reserve personnel was new in 1951. The appropriation for major procurement was new in 1954. The decline in operations and maintenance expenditures in 1955 was

Graph 47.

Marine Corps Annual Expenditures: 1950 to 1960



Note: Expenditures for prior year appropriations are reflected in the year the expenditures occurred.

Sources: U.S., Department of the Navy, Naval Expenditures (1950, 1951, 1952), Financial Report, NAVEXOS P-1170, (Annually, 1953-1959), Navy Budget Digest, NAVEXOS P-1355, (Annually, 1955-1960).

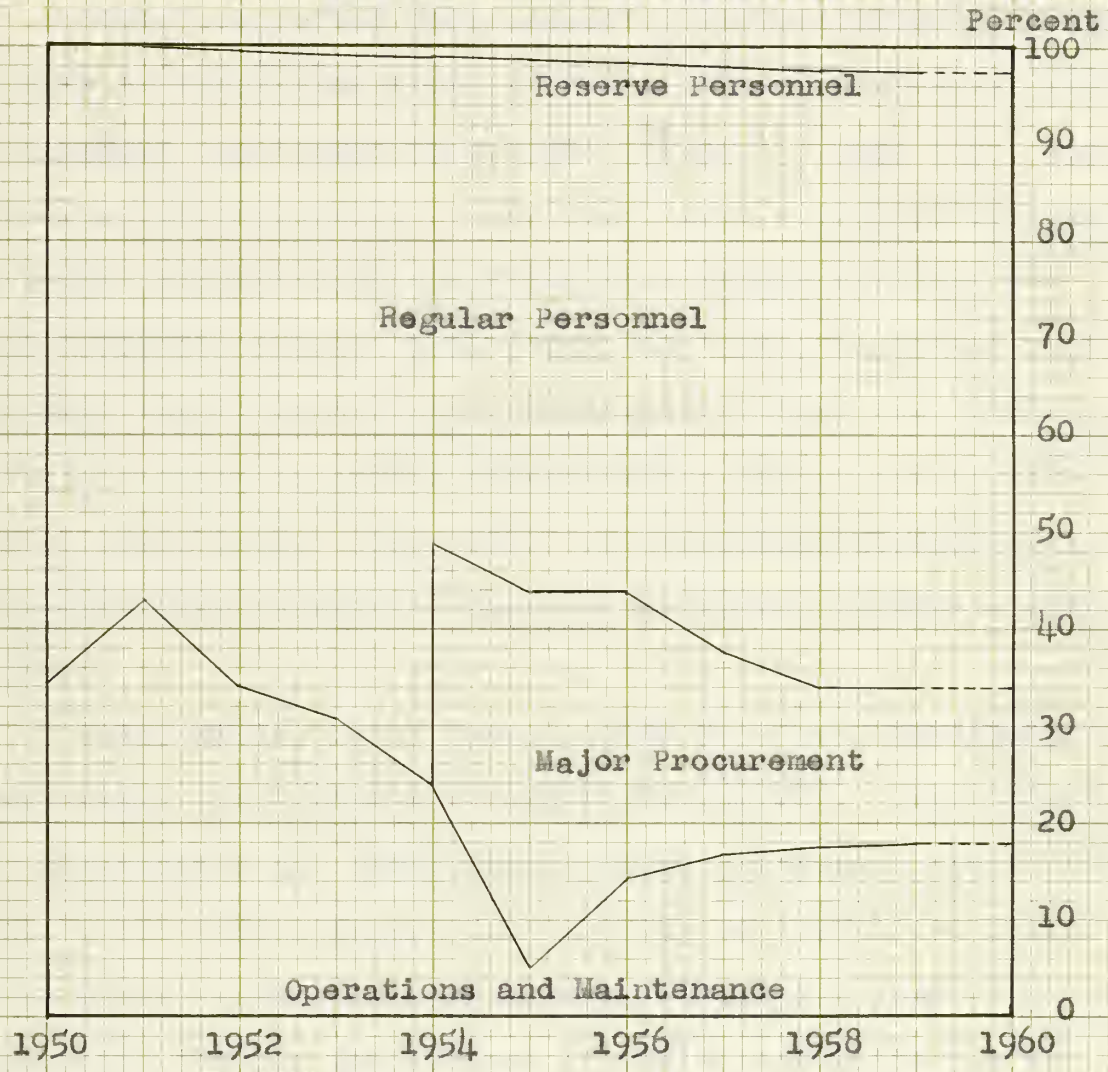
Graph 48.

Marine Corps Annual Expenditures by Appropriation

Sources: Basic data from Naval Expenditures (1950-1952); Financial Report (1953-1959); and Navy Budget Digest (1954-1960).

Graph 49.

Marine Corps Expenditures, by Appropriation Type, As a Percentage of Total Marine Corps Expenditures: 1950 to 1960



Sources: Basic data from Naval Expenditures (1950-1952); Financial Report (1953-1959); and Navy Budget Digest (1954-1960).

probably caused by the repurchase of Korean War pipeline supplies by the Marine Corps Stock Fund with credits to the operations and maintenance appropriations.

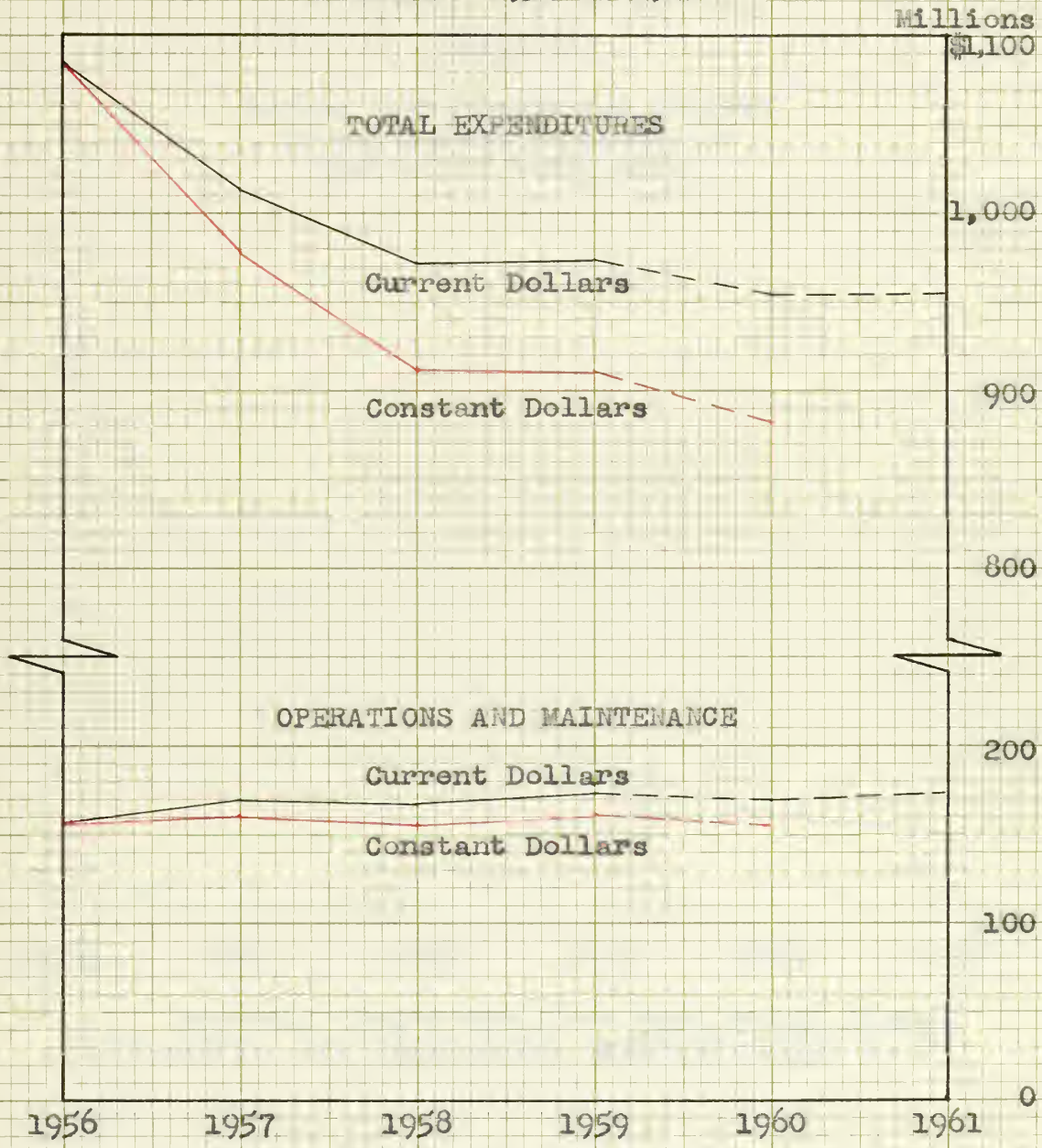
Since the Korean War, regular personnel costs have tended to take an increasing share of total expenditures while major procurement has tended to decline (graph 49, page 74). The relative better showing of personnel over equipment is because personnel expenditures are fixed by strength ceilings and legislated pay rates. When funds are tight, equipment procurement can be cancelled or postponed without the obvious adverse effects on combat effectiveness that a cut in personnel would have. Since 1958 the percentage distribution of expenditures among the appropriations has tended to stabilize.

Total Marine Corps expenditures have been in a downtrend since the Korean War (Graph 50, page75). Inflation has accentuated the down trend in real purchasing power available to the Marine Corps. Another way of looking at Marine Corps costs is the cost per citizen (Graph 51, page 76). Since 1954 the per capita cost of the Marine Corps has declined from $8.30 to $5.50. The citizen is purchasing less combat effectiveness for this reduced price, however, because of declining Marine Corps personnel strength.

Graph 52, page 77, depicts total Marine Corps expenditures as percentages of various other figures. Marine Corps spending is declining relative to gross national product,

Graph 50.

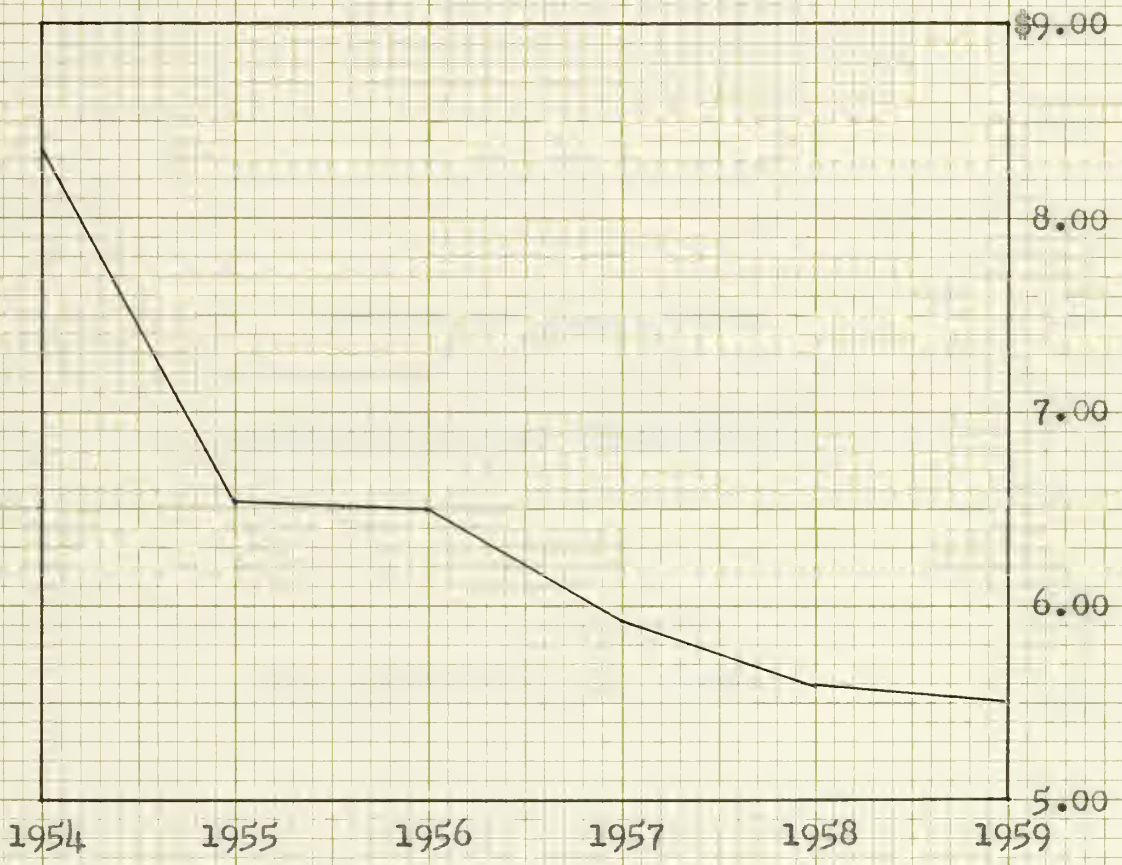
Marine Corps Total Annual Expenditures and Operations and Maintenance Annual Expenditures in Current and Constant (1956) Dollars: 1956 to 1961



Sources: Basic data from Navy Budget Digest (1956-1960), and Economic Indicators (March, 1960), p. 23.

Graph 51.

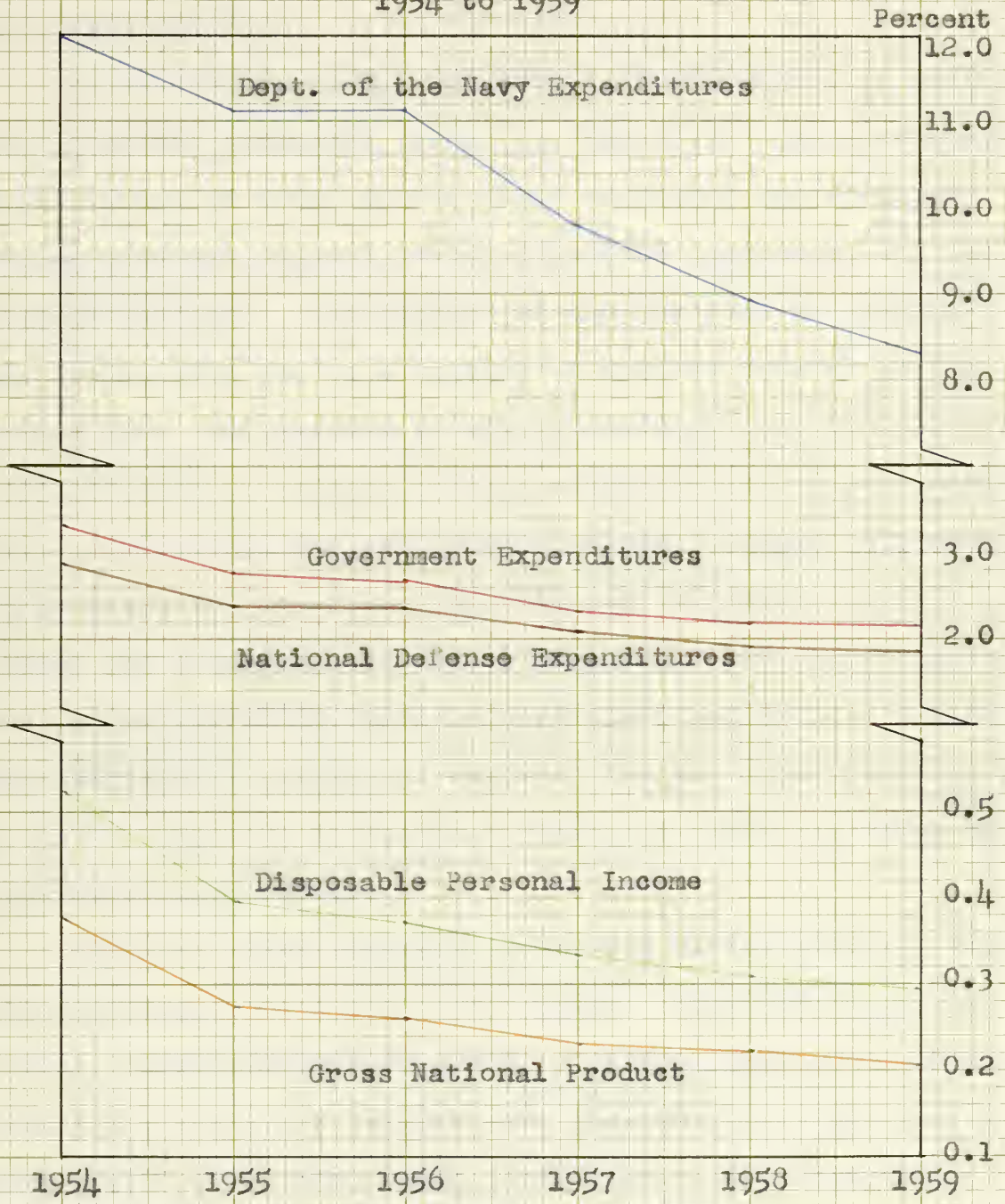
Marine Corps Costs Per Citizen
(Total Annual Expenditures
Divided by Population)



Sources: Basic data from Navy Budget Digest (1954-1959), and Statistical Abstract: 1959, p. 5.

Graph 52.

Marine Corps Total Annual Expenditures As Percentages of Other Expenditures: 1954 to 1959



Note: The vertical scale is not uniform.

Sources: Basic data from Navy Budget Digest (1954-1959); and Economic Indicators (March, 1960), pp. 2, 5.

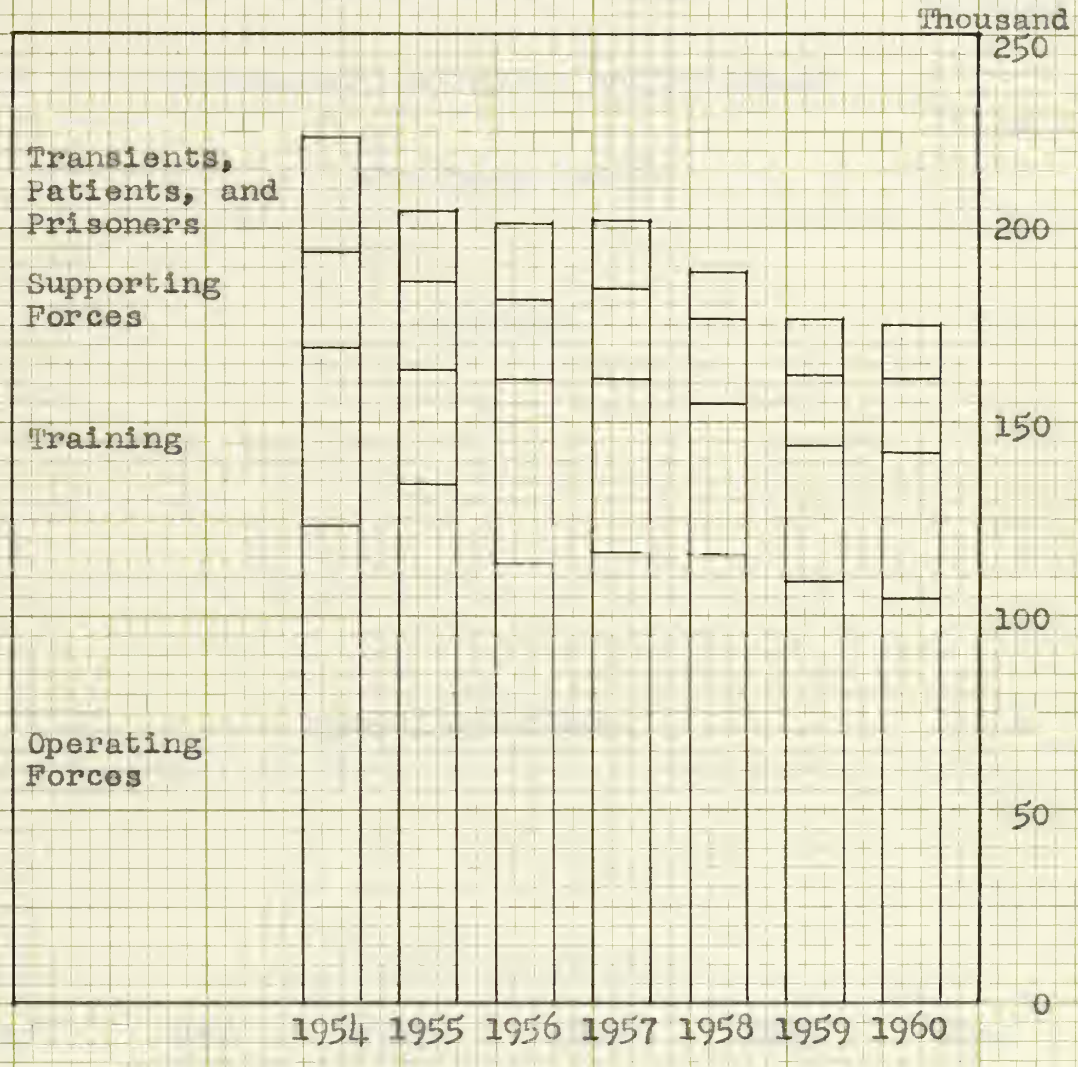
total disposable personal income, national defense expenditures, federal government expenditures, and Department of the Navy expenditures.

Reduced Marine Corps spending is a reflection of declining personnel strengths (graph 53, page 79). The percentage distribution of total Marine Corps personnel has remained fairly constant despite force reductions (graphs 54 and 55, pages 80 and 81). The percent of men involved in training was low in 1955 due to a backlog of Marines trained in the Korean War. The percent of men in training rose in 1956 and 1957 in order to replace a large number of Korean War enlistees whose enlistments expired in this period. Longer enlistment terms since the Korean War have allowed the Marine Corps to reduce the percentage of men in training. The percentage of men in the operating forces has remained constant as a result of some painful cutting of numbers from the supporting forces. Graph 56, page 82, illustrates personnel trends in terms of percent of 1955 forces.

Marines enjoy comparing costs per Marine with the closest equivalent, cost per Army soldier. Graph 57, page 83, depicts these comparative costs. In 1958, the latest data available, costs per soldier were $10,100; costs per Marine were $5,500. The Army costs exclude civil type functions. The Marine Corps costs, however, do not include functions such as military construction, medical support, and air craft which are funded by Navy appropriations. Inclusion of Navy

Graph 53.

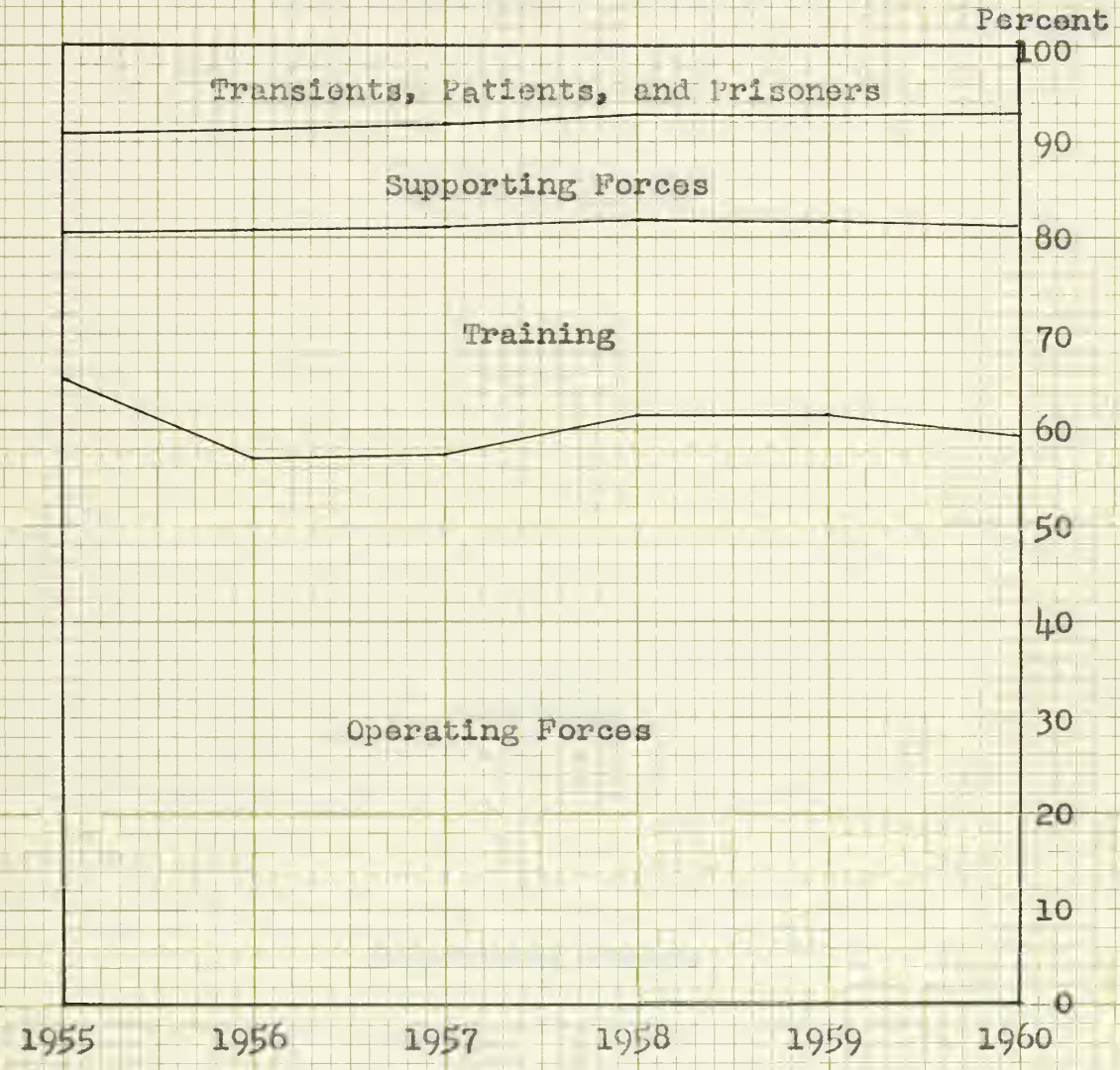
Marine Corps Personnel: 1954 to 1960



Source: Navy Budget Digest (1954-1960).

Graph 54.

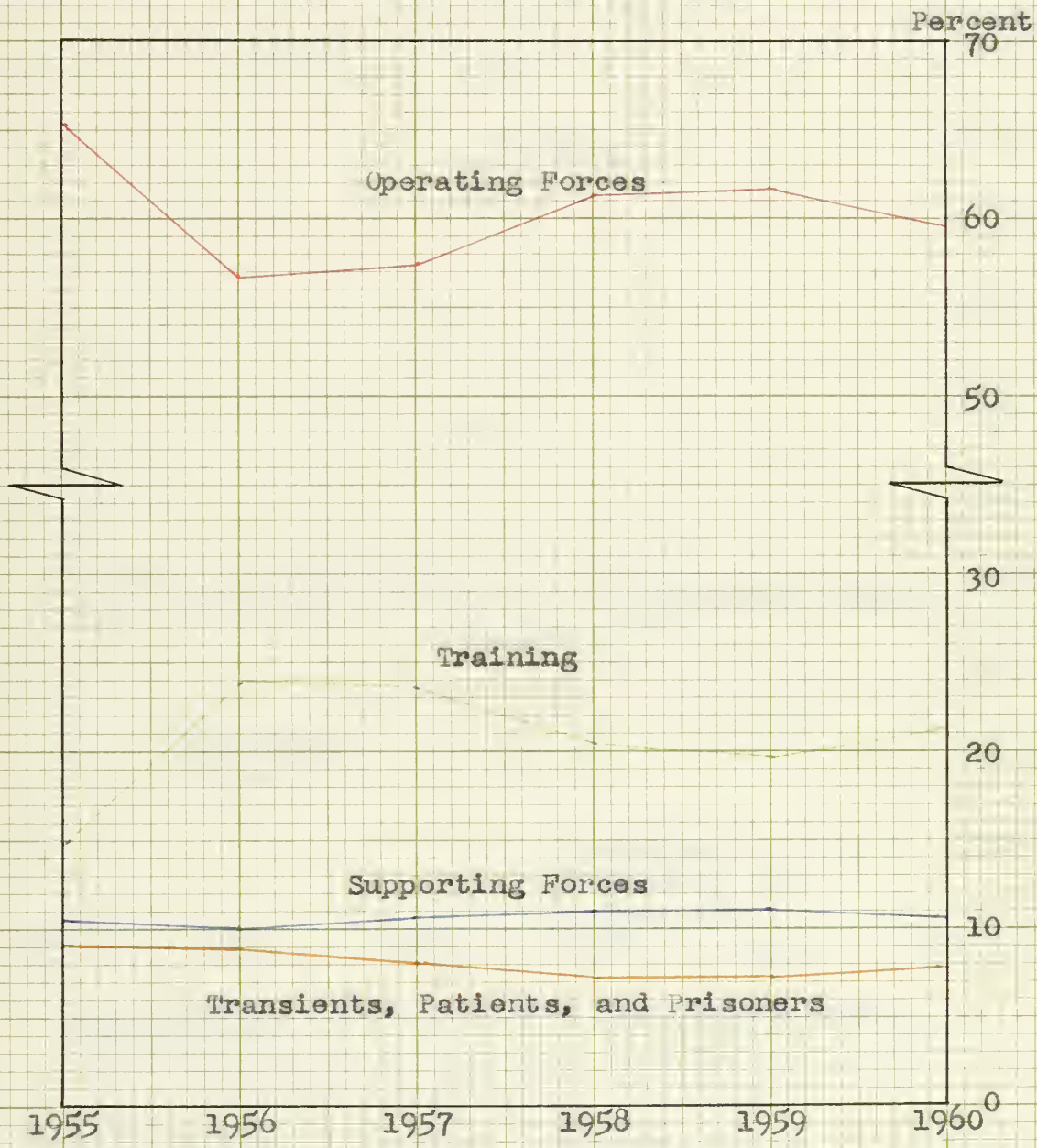
Marine Corps Personnel Categories As a Percent of Total Personnel: 1955 to 1960



Source: Basic data from Navy Budget Digest (1955-1960).

Graph 55.

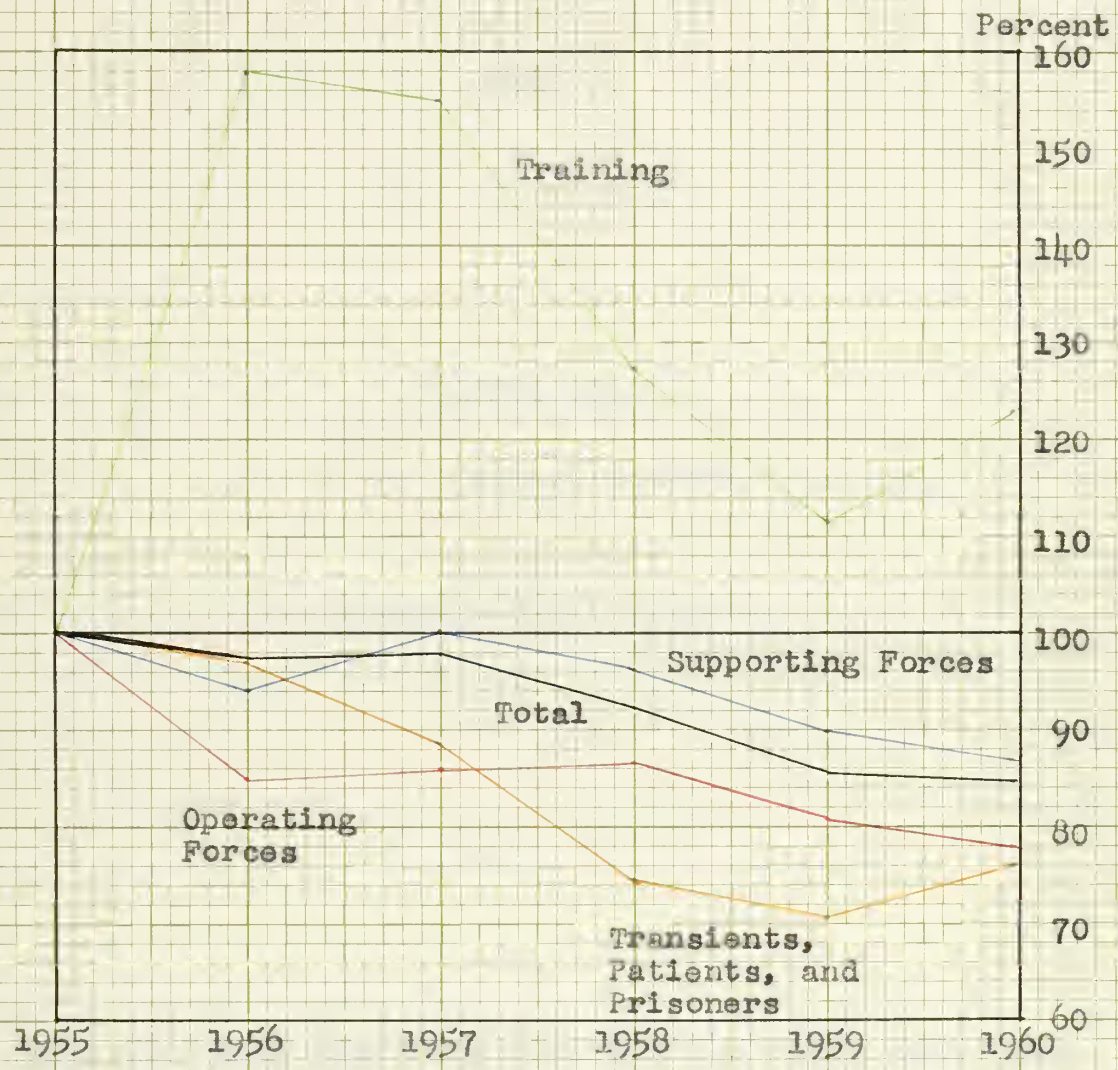
Marine Corps Personnel Categories As a Percent of Total Personnel: 1955 to 1960



Source: Basic data from Navy Budget Digest (1955-1960).

Graph 56.

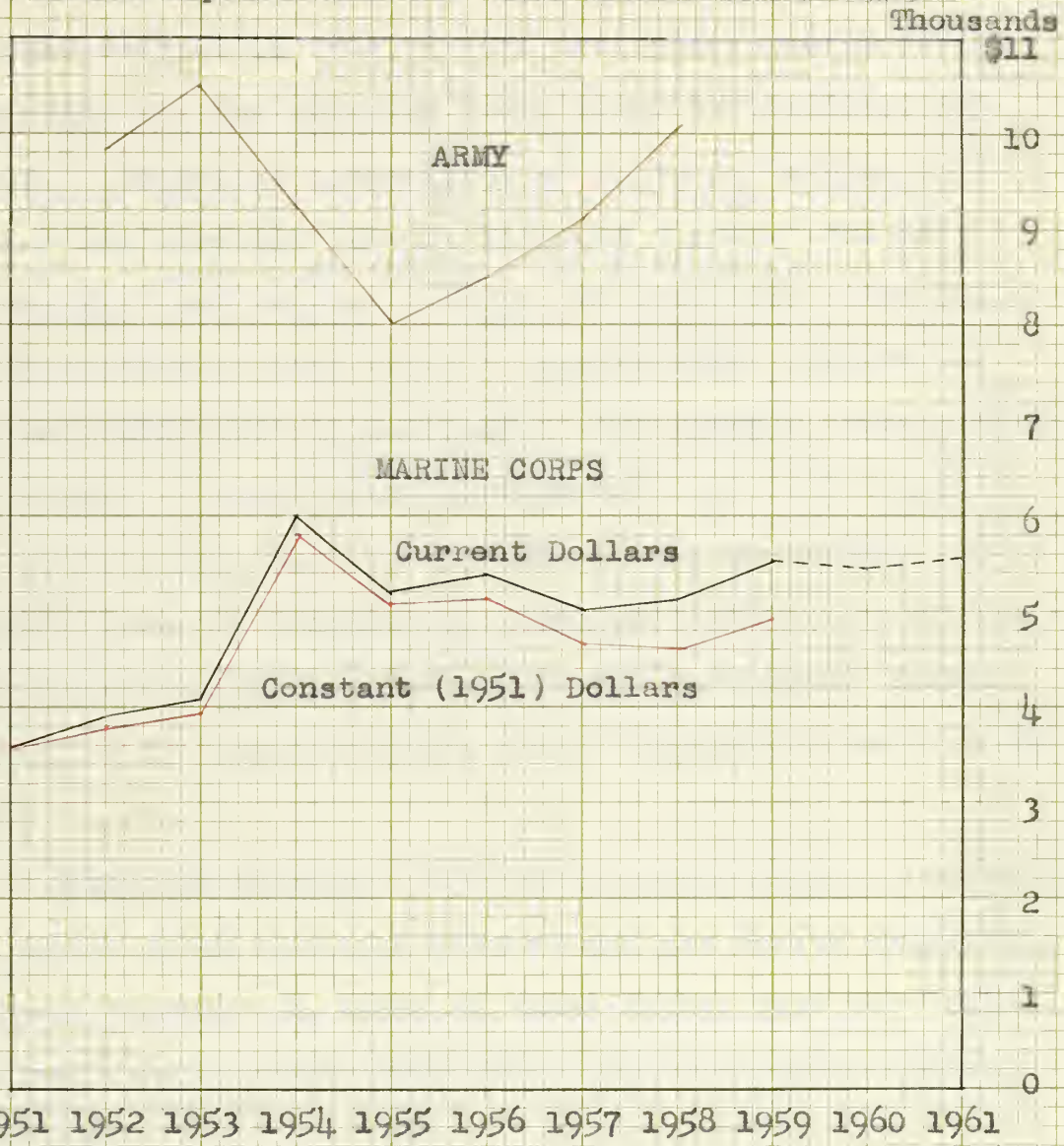
Marine Corps Personnel Trends: 1955=100



Source: Basic data from Navy Budget Digest (1955-1960).

Graph 57.

Annual Expenditures for Each Marine and Soldier



Sources: Basic data from Statistical Abstract: 1959, pp. 247, 333, 366; Naval Expenditures (1951, 1952); Financial Report (1953-1959); Navy Budget Digest (1954-1960); and Economic Indicators (March, 1960), p. 23.

support would narrow this disparity considerably. For example, in 1948 (the only year for which figures are available) the cost for soldier was $5,967; the cost for each Marine (including all the overhead costs borne by the Navy) was $4,440.[1] Objective comparisons of costs per Marine and soldier are very difficult. Missions differ. The Army for example must support a larger mobilization potential. The allocation of Navy costs to Marine Corps support is extremely difficult to determine. For example, what portion of the cost of an aircraft carrier should be allocated to the Marine Corps when the carrier may be used either to furnish close air support for a Marine landing, or to furnish anti-submarine protection to the continental United States, or to launch nuclear strikes against an enemy homeland?

Graph 58, page 85, relates cost per Marine to units of per capita gross national product and per capita disposable personal income. In terms of these units, cost per Marine declined in the period 1954-1957, and has stayed constant since 1957.

Graph 59, page 86, demonstrates that Marine Corps costs have declined 28% from 1954 levels while the various indexes

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[1]This comparison was developed in the hearings before the Senate Committee on Armed Services (82d Cong., 1st sess.) on S. 677, cited by Senator Paul H. Douglas, Economy in the National Government (Chicago: The University of Chicago Press, 1952), pp. 148, 275.

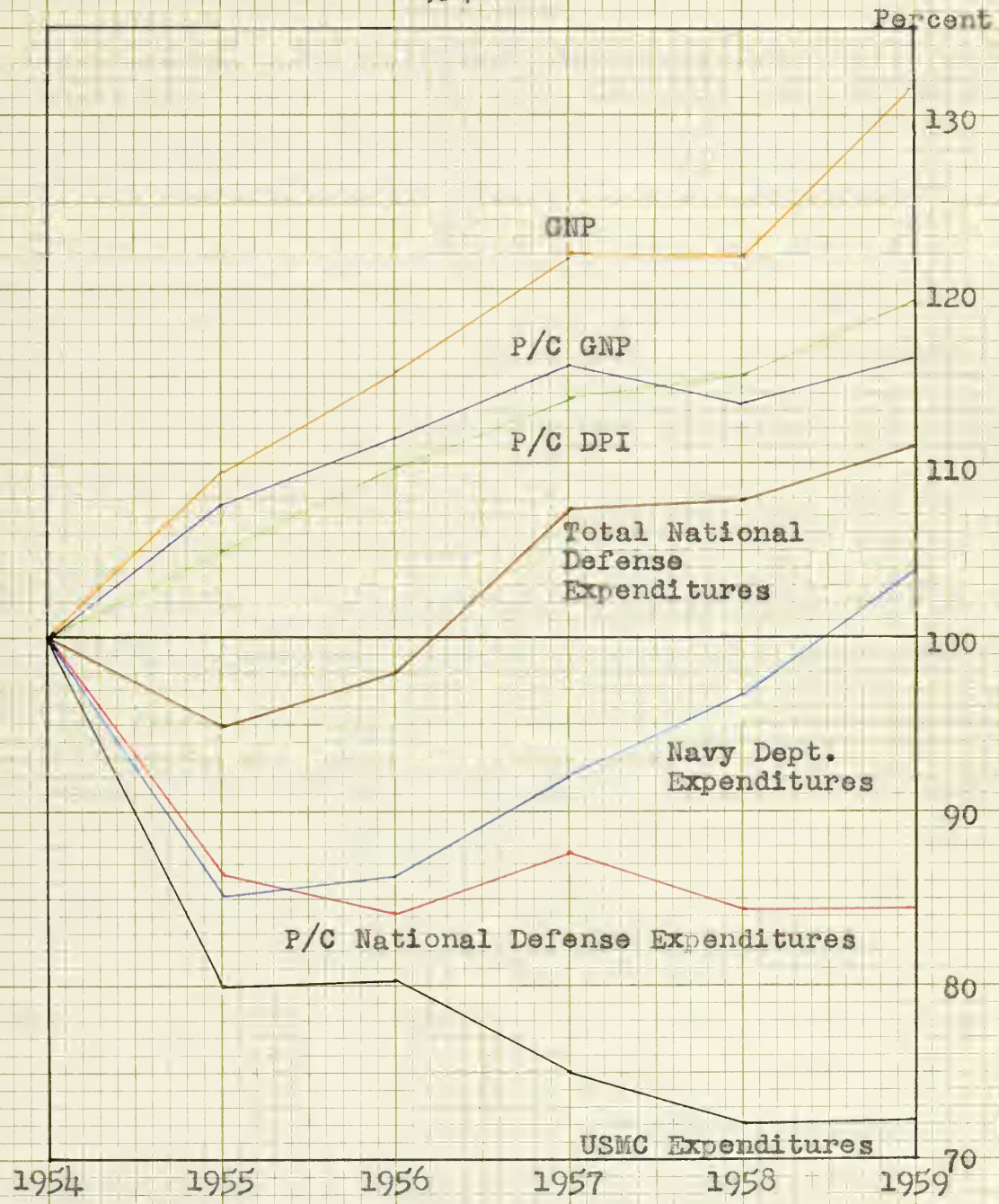
Graph 58.

Annual Expenditures per Marine in Terms of Units of Per Capita Disposable Personal Income and Per Capita Gross National Product

Sources: Basic data from Statistical Abstract: 1959, pp. 5, 393; Economic Indicators (March, 1960), pp. 2, 5; and Budget Digest (1954-1959).

Graph 59.

Comparative Trends
1954=100



Sources: Basic data from Statistical Abstract: 1959, pp. 5, 303, 304, 364, 366, 368; Navy Budget Digest (1954-1959); and Economic Indicators (March, 1960), pp. 2, 5, 31.

of national or individual ability to pay for a greater Marine Corps have increased.

VII. CONCLUSIONS

Our economy is growing at a very leisurely pace. Russia's productivity is growing three times faster than ours. When population growth and inflation are considered, it is fairly obvious that our current per capita rates of production and disposable personal income growth are negligible (graphs 12 and 16, pages 23 and 30). Whether the current situation is good or bad probably depends on the individual's political and economic philosophy. The balancing of individual freedom against the loss of freedom required to gain the security and benefits of group action has been a problem since the beginning of civilization. The correct government fiscal and monetary policies are strictly a matter of personal preference. Growth, price stability, and full employment are conflicting goals. There is no one "best" policy. I personally would prefer more aggressive government action to encourage national and per capita growth. The choice of particular fiscal or monetary policies is not as important as are the development of goals and dynamic leadership to attain those goals. As long as we have a national purpose, we can always adopt, modify, or reject particular fiscal and monetary policies as necessary, depending on their effectiveness in meeting our goals. Complacency with the status quo will not result in growth.

The adequacy of defense spending is also a personal question. We are spending comparatively less on national defense while our ability to spend, in terms of production, disposable personal income, or debt, has increased, both in total (graph 60, page 90) and on a per capita basis (graph 61, page 91). Our emphasis on maximizing personal well-being in the short run may result in minimizing it in the long run.

The current administration feels our level of defense spending is adequate. A recent Gallup poll[1] indicates that the consensus of citizens supports the administration in this view. This poll, published 10 April 1960, indicated the attitude of the nation on present defense spending as follows:

Too little.....21%
About right.....45
Too much.....18
No opinion.....16.

Only twenty-one percent thought that defense spending was inadequate.

The establishment of a national policy is a delicate matter. If the citizens feel strongly enough on a matter, they can usually sway their leaders. Ultimately of course, via the ballot, the citizens can most certainly choose

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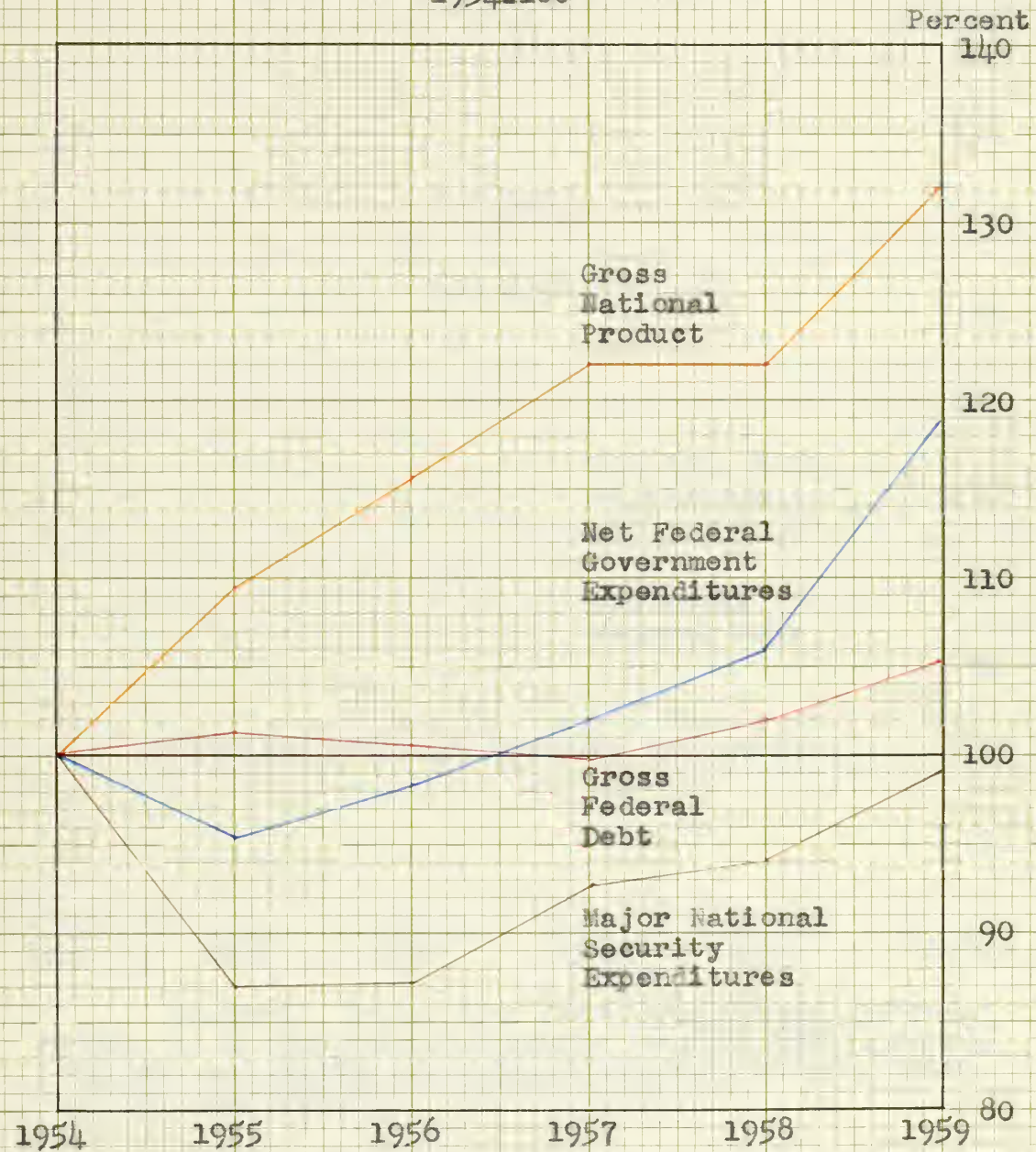
[1] The Washington Post (Washington, D.C.), 10 April 1960, p. L6.

Graph 60.

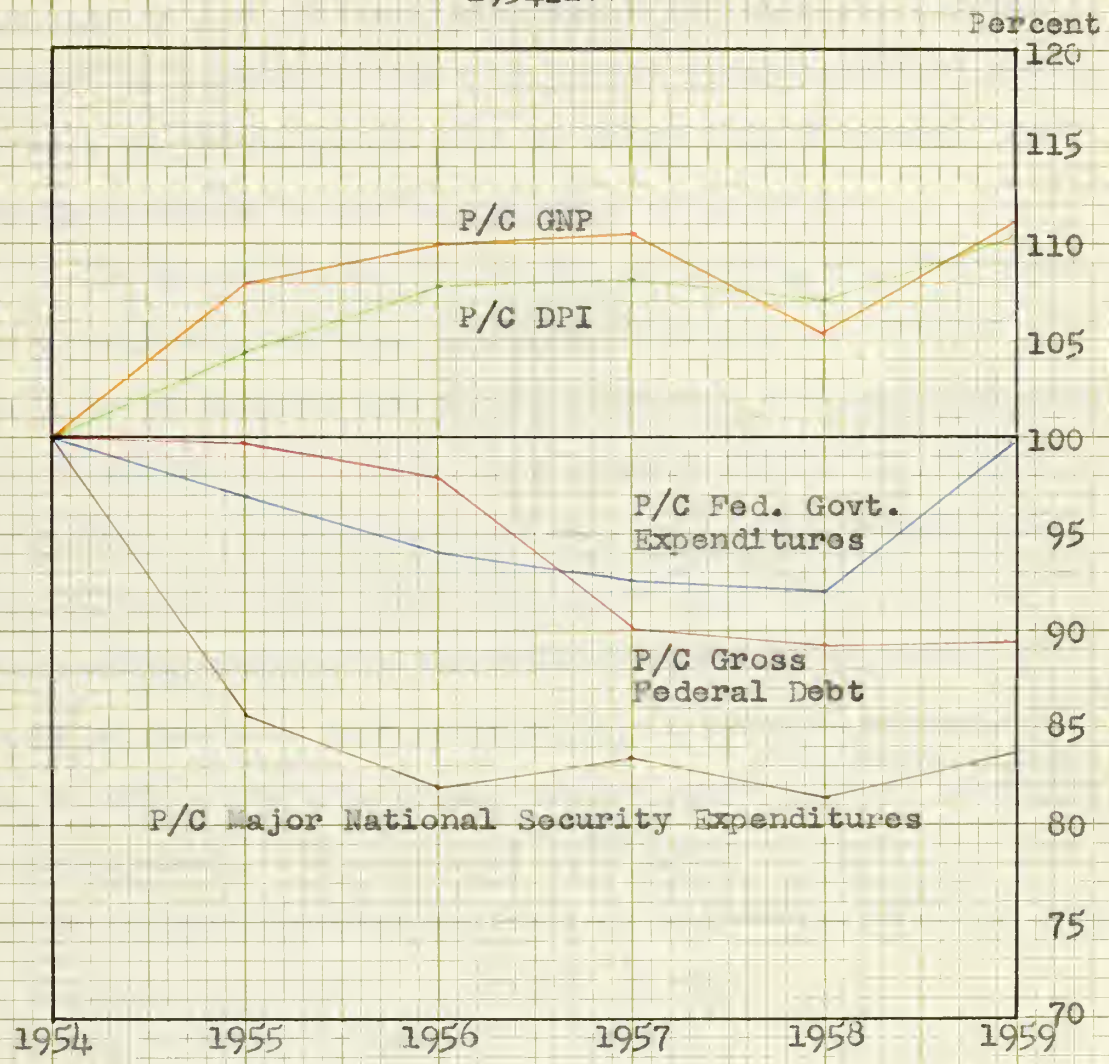
Comparative Trends: Gross National Product, Net Federal Government Expenditures, Gross Federal Debt, and Major National Security Expenditures, in Current Dollars 1954=100



Source: Basic data from Economic Indicators (March, 1960), pp. 3, 31.

Graph 61.

Per Capita Trends: Disposable Personal Income, Gross National Product, Federal Government Expenditures, and Major National Security Expenditures, in Constant Dollars: 1954=100



Sources: Basic data from Statistical Abstract: 1959, p. 5; Economic Indicators (March, 1960), pp. 2, 23, 31; and Survey of Current Business (March, 1960), pp. S1, S6, S11.

leaders whose views coincide with theirs. Conversely, a strong leader can sway the opinions of the people. Under present conditions, however, when both administration and the mass of the citizens seem satisfied that our defense posture is adequate, there is little likelihood that future defense spending trends will be other than downward. The consensus seems to prefer tailfins to defense.

If we are headed for an era of peace, this decision to de-emphasize defense spending will save our citizens billions of dollars and should result in a higher standard of living for all. If we have guessed wrong, our noble experiment in self government may come to an abrupt halt and, like the great Roman Empire, we may become only an interesting chapter in the history books illustrating the folly of national self indulgence. I believe we are failing to weigh intelligently present costs against possible future results. The cost of an adequate or even over adequate defense is insignificant in comparison with the costs of failing to prevent, or losing, a war.

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